RESULTS OF THE GATT MINISTERIAL MEETING HELD IN PUNTA DEL ESTE, URUGUAY

HEARING

BEFORE THE

SUBCOMMITTEE ON TRADE

OF THE

COMMITTEE ON WAYS AND MEANS
HOUSE OF REPRESENTATIVES

NINETY-NINTH CONGRESS

SECOND SESSION

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RESULTS OF THE GATT MINISTERIAL MEETING HELD IN PUNTA DEL ESTE, URUGUAY

THURSDAY, SEPTEMBER 25, 1986

HOUSE OF REPRESENTATIVES,
COMMITTEE ON WAYS AND MEANS,
SUBCOMMITTEE ON TRADE,
Washington, DC.

The subcommittee met, pursuant to call, at 9:35 a.m., in room 1100, Longworth House Office Building, Hon. Sam M. Gibbons (chairman of the subcommittee) presiding.

[The press release announcing the hearing follows:]

FOR IMMEDIATE RELEASE
THURSDAY, SEPTEMBER 11, 1986

SUBCOMMITTEE ON TRADE #34
COMMITTEE ON WAYS AND MEANS
U.S. HOUSE OF REPRESENTATIVES
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THE HONORABLE SAM M. GIBBONS (D., FLA.), CHAIRMAN, SUBCOMMITTEE ON TRADE, COMMITTEE ON WAYS AND MEANS, U.S. HOUSE OF REPRESENTATIVES, ANNOUNCES A HEARING ON THE RESULTS OF THE GATT MINISTERIAL, SEPTEMBER 25, 1986

The Honorable Sam M. Gibbons (D., Fla.), Chairman of the Subcommittee on Trade, Committee on Ways and Means, U.S. House of Representatives, today announced that the Subcommittee will hold a hearing on the results of the upcoming Ministerial-level meeting of the General Agreement on Tariffs and Trade (GATT). The hearing will be held on Thursday, September 25, 1986, in the main Committee hearing room, 1100 Longworth House Office Building, beginning at 9:30 a.m.

The Honorable Clayton Yeutter, United States Trade Representative, will be the sole witness.

A meeting at Ministerial level of the Contracting Parties to the GATT will be held next week at Punta del Este, Uruguay, to seek agreement on a declaration of objectives, principles, and subjects for launching a major new round of multilateral trade negotiations. Ambassador Clayton Yeutter will head the U.S. delegation to this meeting. The hearing will provide the Subcommittee an opportunity to review the results of the Ministerial and to examine the following issues: the status of U.S. trade negotiating objectives in the Ministerial declaration; the timetable, format, and plans for negotiating actual agreements; the need for additional legislative authorities to achieve a successful multilateral agreement; and the role of the private sector in the upcoming negotiations.

WRITTEN STATEMENTS IN LIEU OF PERSONAL APPEARANCE

Any interested person or organization may file a written statement for inclusion in the printed record. Persons submitting written statements for the printed record of the hearing should submit at least six (6) copies by the close of business, Friday, September 26, 1986, to Joseph K. Dowley, Chief Counsel, Committee on Ways and Means, U.S. House of Representatives, 1102 Longworth House Office Building, Washington, D.C. 20515. If those filing written statements for the record of the printed hearing wish to have their statements distributed to the press and the interested public at the hearing, they may provide 100 additional copies for this purpose to the Subcommittee office, room 1136 Longworth House Office Building, before the hearing begins.

SEE ENCLOSED FORMATTING REQUIREMENTS.

* * * * * * * * * * *

Chairman GIBBONS. Good morning, ladies and gentlemen. Unfortunately, Mr. Ambassador, you are competing against the tax bill, and everyone else on the Ways and Means Committee is either out lobbying for or against the tax bill right now as it comes up in just a few moments. But I am sure they will all review your statement, and some of the members will be coming in as soon as they can complete their discussions on the tax bill.

The Subcommittee on Trade is holding a hearing this morning to receive testimony from the U.S. Trade Representative, Ambassador Clayton Yeutter, who headed the U.S. delegation to last week's ministerial level meeting of the Contracting Parties of the General Agreement on Tariffs and Trade held in Punta del Este, Uruguay. Ambassador, you and your delegation and your strong leadership are to be congratulated for, I think, a very successful beginning of what I believe will be, of course, ultimately a very successful round of multilateral negotiations to reduce the barriers to open markets around the world for trade.

I am particularly pleased at the scope of your negotiations and the success of your negotiations within that very broad scope. It shows that the rest of the world is willing to listen and to cooperate and to follow good, strong leadership. So I commend you again for not only a governmental triumph but for a personal triumph for yourself and for the others who participated in this. I know it was a team effort, but it takes a good, strong leader to do it.

The purpose of this hearing is to review the results of that ministerial negotiation and to talk about the format and the timetable for action after this meeting.

We here in the Congress are particularly hopeful that multilateral negotiations will go far and will go rapidly. Obviously, much needs to be done. Again, we are off to a good start. We are anxious to hear from you, Mr. Ambassador.

STATEMENT OF HON. CLAYTON YEUTTER, U.S. TRADE REPRESENTATIVE

Ambassador YEUTTER. Thank you very much, Mr. Chairman. It is a pleasure to come in this morning to review the results of Punta del Este, and I am sorry that other members of the subcommittee cannot be here, because I really believe they would enjoy sharing in what occurred in Punta del Este, but perhaps we can do that another time.

Chairman GIBBONS. If you hadn't been as successful as you were, they would all be here. I have found that in politics, people don't turn out when they are happy. If you go in a room and there is a huge crowd there, you had better be ready with a lot of fast answers. So one of the things that signifies this morning is not only interest in the tax bill, but, more importantly, approval of what you have been able to accomplish.

Mr. FRENZEL. Mr. Chairman.

Chairman GIBBONS. Mr. Frenzel.

Mr. FRENZEL. I would like to welcome the U.S. Trade Representative to the meeting. The reason I do so is that I may be called upon to go over on the tax bill. I will be called upon to stay away, but I am going to go anyway. And I want to compliment Ambassador

Clayton Yeutter on the success of the mission to Punta del Este, but I think even more importantly than that, I want the record to show and my chairman to know how effective the cooperation was between Ambassador Yeutter, Secretary Baldrige, Secretary Lyng, the Department of State, the Department of the Treasury and others who were present.

Our team worked so effectively together it was absolutely inspirational to observe them in their work. I was only with them for a short time, but I knew we were going to be successful because of the way we were approaching the problem, in addition to the fact the rest of the world understood the problem, too, and knew we had to have movement.

But, Mr. Ambassador, that was the best coordinated and most effective use of U.S. resources that I have ever seen in an international meeting, and you, not just you, but all your associates, everyone who was involved, not just the people down there but the people back here who were supporting you, deserve the thanks and congratulations of every American.

Chairman GIBBONS. Mr. Frenzel, I want to thank you for going down there. I would like to have gone, but I can't endure that much flying, and I figured that with you there and with the Ambassador there and the others there, things were in good hands.

Go right ahead.

Ambassador YEUTTER. Thank you very much, Mr. Chairman. I appreciate the very fine accolades both from you and from Congressman Frenzel. This subcommittee has just been tremendously supportive and helpful through this entire exercise and a lot of other trade issues, and we are deeply appreciative of that, and we understand the difficulties of a lot of people joining us in Punta del Este. Thus, it was the timing of the meeting, and the fact that the election season was upon us.

But we were delighted to have Congressman Frenzel there. I wanted to say to you, Mr. Chairman, because I think this might be of interest to you and others, we, for all practical purposes, just considered Congressman Frenzel to be a member of the delegation. We did the same thing with the private sector advisers who were there. We had about 10 of those, as I recall, most of them chairman of some of our individual advisory committees, and we essentially made them members of the delegation, too, and used them that way.

That just gave us some additional horsepower, and it made a lot of difference. We could go into dinner meetings or luncheon meetings and give the congressional viewpoint, the private sector viewpoint, and executive branch viewpoint all at once.

As Congressman Frenzel indicated, by coordinating that and having it be consistent, it was very very helpful in persuading people. So we really considered Congressman Frenzel's contributions to be significant and helpful, indeed.

Now, to get into the results itself, obviously we are very pleased with the outcome. As you indicated, Mr. Chairman, it is a broad agenda. I had articulated, prior to the conference in a couple of speeches here in Washington, DC, what our priorities were. As you know, I took a very hard stance in some of those speeches and indicated we were prepared to walk out of that meeting, if necessary, if

those high priority items were not on the agenda. That word had reached Punta del Este, and every delegate down there knew precisely what we had said, and I hope they realized we meant it, and that certainly helped set the tone for the meeting.

At the same time, we tried to be as sensitive as we could to the needs of other nations in responding to their own particular situations, and the ultimate outcome was a very favorable one. It seems to me the utopian result in an international meeting, Mr. Chairman, is to get the results you want and have nobody go home mad, and we came awfully close to that in this session. We clearly achieved all of the results that we had in mind. Substantively, it was a full-scale victory in that regard.

And, in addition, to my knowledge, nobody went home dissatisfied or unhappy or bitter toward the United States or toward the conference, itself. It seemed to me that we came through that with just general satisfaction on the part of everyone and a good feeling toward the negotiations. We didn't want to wrap up in Punta del Este, having the result we wanted to achieve but having a negative psychological environment going into the negotiations themselves. I truly believe we have a very positive tone and attitude on the part of all the countries in the world, including Brazil and India, who were our major adversaries on a lot of issues in Punta del Este. That is an ideal result in terms of beginning the negotiations themselves.

Now, if I may, Mr. Chairman, I would like to just quickly summarize the key issues we achieved in Punta del Este and where we now stand. I will start with agriculture, because I want to correct a couple of errors in the copies of the Ministerial Declaration that were distributed here this morning, and we are having some corrected copies brought over, Mr. Chairman, that will be available here by the end of this hearing.

But since some of the people have already gotten copies, and this is rather key language, I thought I might take a minute and correct it. For the benefit of the people in the audience who are looking at it, it is page 6, and it is the double "I's" of agriculture. This section was the most contentious part of that entire exercise in Punta del Este. Secretary Lyng and Under Secretary Amstutz and a number of other people spent about 4 days on that particular paragraph, and they spent about 10 hours on about five words or so in the last day.

But, at any rate, to make sure that there is no misunderstandings, the words that are included in the text are correct, but there are three words omitted, and they are in the fourth line which starts with the word "indirectly", and that word, indirectly, should be followed by the words "agricultural trade, comma, including the phased reduction of their negative effects" and so forth. So it should read "directly or indirectly, agricultural trade, including the phased reduction of their negative effects and dealing with their causes."

Some of that language is a bit awkward, but it turned out that way after about 6 days of debate. There is no question about what the intent is.

One other correction, but easier to make, is in the final paragraph of that section where it says in order to achieve the above

objectives, the negotiating group "having responsibility", that should read "having primary responsibility". That, too, was a debate because this is where the European Community sought to provide exclusive responsibility for the agricultural group. We objected to that and were successful in carrying out our objections. It is "primary responsibility" which means we are not precluded from raising trade issues in any of the other negotiating groups. This group will have primary responsibility for negotiating agricultural issues, but not exclusive responsibility.

All in all, we are pleased with the agricultural language, which as I stated was one of the more contentious issues in Punta del Este. It provides the opportunity to put everything on the negotiating table in the new round of GATT negotiations, and that is what was needed. What we needed in agriculture was a comprehensive negotiation that would put everybody's programs on the table that have an effect on international trade, and we ought to try to negotiate an outcome that brings some sanity back to agricultural trade.

We believe that language does the trick, and, as you may know, Mr. Chairman, we also had language in the Ministerial Declaration that would permit agriculture or any other negotiating group to move on a faster track than other elements of the negotiations. It doesn't require it, but it provides that opportunity, and so if we can complete agricultural negotiations within 2 years, as we hoped might be the case, because the situation is so chaotic, then we can reach the agreement and begin to implement it giving due credit for that agreement at the end of the day when all the other groups come to a conclusion.

We happen to think there are a couple other areas in which that fast-track process might also be appropriate. So the groundwork is set, Mr. Chairman, for comprehensive negotiations in agriculture on as fast a track as we can take it.

SERVICES

The other extremely contentious issue in Punta del Este was, of course, services. We had major differences of viewpoint between ourselves and a number of LDC's in this area, particularly Brazil and India, where their preference would have been not to have any negotiations at all on services. Their other view was if ultimately they had to accept negotiations on services, they wanted them on a dual track basis where they would keep services 1,000 miles away from the GATT if it were possible to do so. They did not want to have tradeoffs between services and other areas of the negotiations, and they had concerns about how we might retaliate against them and services as a whole, along with a lot of other things.

We spent endless hours of debate on the question of whether services would be encompassed in this negotiation, and, if so, on what basis. As it turned out, we are very pleased with the result. There will be a full-scale negotiation on services. The language provides for the privilege not only of negotiating an overall framework in services, but also the possibility of having individual sectoral negotiations on services. So everything is available to us in that

regard. Those decisions will have to be made in the negotiating groups on services in Geneva once it gets underway.

Then we did some very creative structuring of the negotiations to deal with this so-called dual-track/single-track issue, and that turned out just fine from our standpoint, as well.

We provided a graceful exit for our Brazilian and Indian friends in terms of the presentation of this issue, but everyone knows full well that in terms of substance, this will be one negotiation, one track, one undertaking, one trade negotiating committee with the privilege of tradeoffs at the end of the day and with the entire work product ultimately coming back to the same kind of meeting we had in Punta del Este.

Now, what was done, Mr. Chairman, was for the other elements of the negotiations—the process was begun by a meeting of contracting parties. For services, the meeting was begun through a conference of ministers. Actually, they are precisely the same people, so they wear the hat on one side of their head when they start one segment of the negotiations and the other side of their head when they start the other side of negotiations, and they will come back in a similar meeting 4 or 5 years from now, put on both their hats and accept the work product of the negotiations.

So if some folks would like to consider that to be more than one track, it is their privilege to do so, but it seems to us rather easy to determine there is only one track involved, and the same people are involved in both exercises. So there was a bit of semantics, slight of hand, if you will, involved in providing a graceful conclusion to that issue. But there is no question about how that issue will be handled. Substantively, everything is on the table, and services will be handled in the negotiations just like everything else.

Intellectual property also stimulated new debate. The new topics, intellectual property and investment, were all debated with great vigor. None of those issues came easy. We spent many hours on them. I had assigned lead roles to every member of the delegation, and Secretary Baldrige carried the lead on intellectual property and did it very well, indeed. We had a huge debate over this subject with a good many people wanting to settle for nothing but a counterfeiting code.

As you know, Mr. Chairman, we began negotiations on a counterfeit code at the Tokyo round. Those negotiations were not concluded, so those who would not like to provide intellectual property protection argued in Punta del Este, let's take half a loaf, finish off the counterfeiting code, get it implemented, and let's worry about these other intellectual property issues 10 years in the future, or something. We said that was absolutely unacceptable to us, and although we would like to get the counterfeiting code wrapped up as soon as possible, we were not prepared to accept a half a loaf in that area, we wanted it all. It was too big a problem for the world as a whole, too much of an issue, priority issue for the United States, and just had to be dealt with.

Ultimately, reason prevailed on that issue, as well, and we have a full-scale opportunity to negotiate anything that is of concern to us in intellectual property.

Investment was the most difficult struggle of all. I felt from the very beginning that would be the case, and it turned out to be so.

We spent more time on services and agriculture than we did on investment by far, but nevertheless investment was by far the most difficult. There was total unanimity of opposition on the part of the Latin American countries.

The first statement on investment during the debate was a statement by the representative of Argentina who said he was speaking on behalf of all Latin American nations who were participants in Punta del Este, and he wanted to announce to the conference that Latin America was unanimous in its opposition to negotiations on investment.

I responded by saying that the last time I looked, Latin America had some major debts. We had been in Punta del Este at that time for about 4 days, and I hadn't had time to read any newspapers, but I assumed there might still be a few debts to be paid. If so, it seemed to me that Latin America had a need to shift some of its financing burden from the debt side to the equity side, the equity side meant investment. Unless all of that investment could be generated within Latin America, I suspected there was a need for some foreign investment in that part of the world, too, and so, negotiations in the GATT to improve the investment climate would be in order.

And then I said perhaps I have missed what occurred in the last 4 days, and maybe all of Latin America's debts have been paid, all of Latin America is now rich and doesn't need foreign investment any more. But if that is really not the situation, maybe we ought to sit down and have a negotiation.

That, as you might suspect, provoked some strong debate for a period of time, and eventually general agreement on the part of a lot of people what we ought to do is have a study on investment and sometime in the future move from a study to negotiations.

I indicated that that, too, was unacceptable to the United States. We didn't come to Punta del Este to have a study, we came to Punta del Este to get negotiations rolling in investment, that I was prepared to negotiate with respect to the size of the plate on investment, but not with respect to whether there was a negotiating plate there at all.

And so the ultimate result was that we will have negotiations on investment, it will be what people will call TRIMS, trade-related investment measures. We are not going to try to solve all of the investment problems of the world over night, but we did agree we are going to move forward with the trade negotiations on TRIMS. Those were the major issues in contention.

But let me briefly mention a few others that are on the agenda and that are important. One of the other priorities that I mentioned as being of immense importance to the United States was dispute settlement. As you know, we have been making the statement over and over again one of the major shortcomings of the GATT is its dispute settling mechanism, the need to improve that and enhance it through greater coordination with other bodies, like the IMF and the World Bank and so on.

Interestingly, there seemed to be unanimity on that point. I was very pleased to discover a lot of countries share our views in that area and are really committed to improving dispute settlement

mechanism and adding to the stature of the GATT. That one came easily.

There was considerable debate about safeguards, which is our section 201 here, as you well know, Mr. Chairman. But the language that came out of the Preparatory Committee in Geneva was accepted on safeguards, and so there was relatively little debate in Punta del Este on that point. We were satisfied with that issue, and as you may know, we were satisfied with essentially all the language that came out of the Preparatory Committee in Geneva, and we sought diligently to preserve that language in Punta del Este and were able to do so on most all occasions.

There was some debate on the question of standstill and rollback, and that is of concern to some of the members, Mr. Chairman, because of the worry that this might in some way impede us from using some of the existing trade laws of the United States, whether that be—for example, the meat import law, the continued implementation of that law, and, of course, our laws that relate to unfair trade practices, section 301, and the antidumping laws, countervailing duty laws, and so on.

When the dust settled, no changes were made in the standstill/rollback language that emerged from Geneva. That language was completely acceptable to us because it does not tie our hands in any way at all to the things I have been talking about, so we were very pleased likewise with the outcome on standstill and rollback. There were attempts to change that language in Punta del Este, but those attempts failed.

Beyond that, there is agreement on moving the negotiations forward in a lot of the traditional areas, tariff and nontariff barrier areas, and changes in some of the codes negotiated in the Tokyo round and so on. Altogether, Mr. Chairman, the package is almost ideal from the standpoint of the United States.

What we must do now, just to finish off that particular issue, is organize in Geneva under a trade negotiating committee, similar to what was done at the Tokyo round, with a Ministerial Declaration call for a meeting of that committee in Geneva, which will be representatives of all the countries that will participate in this negotiation no later than October 31. That is only a little over 30 days from now, so we will have to get organized in Geneva very quickly and make a selection ultimately of who will chair the Trade Negotiating Committee. During the Tokyo round, the Trade Negotiating Committee was chaired by the General Director of the GATT. But the decision has yet to be made for this round. This will clearly be an item of discussion over the next 4 weeks. Then, of course, a final decision will have to be made in Geneva as to precisely which negotiating groups will be established and will get their work underway.

There were discussions of that issue in Punta del Este. There seemed to be a general consensus on what those negotiating groups will be, but it needs to be dealt with with specificity in Geneva, and that will have to be done relatively soon.

How soon will the actual negotiations commence? It is possible, Mr. Chairman, that some of them will get underway even before the first of the year, but I suspect that most of the remainder of the year will have to be devoted to general organization and get-

ting the structure in place and ready to go. A lot of countries will not have delegations in Geneva adequate to handle the negotiations, and there will be a lot of logistics involved that will have to be handled before things really get moving. As a practical matter, it will probably be after the first of the year before actual negotiations commence.

The Ministerial Declaration calls for a final outcome within 4 years. That may or may not be optimistic, I hope it isn't, I would like to see it get done in 4 years, but time will tell. We will clearly have more negotiating groups than we have ever had before. There were six in the Tokyo round, I suspect there will be close to double that in this round. It will be an ambitious undertaking, without question the most ambitious trade negotiation in the history of the world.

With Congressman Pease here, I would be remiss if I did not make some comments about the workers' rights issue. As you know, Congressman Pease, we had Tom Donnelly and Rudy Oswald of the AFL–CIO along with us in Punta del Este as members of our delegation of private-sector advisers, and I indicated before you came in, Congressman Pease, we really used those folks and all the private-sector advisory group as members of our delegation while we were there. All of them were just great. They were tremendously supportive and helpful, and we really appreciated that input.

We dealt with worker rights as best we could under extremely adverse circumstances because, as you know from the preparatory committee process in Geneva, there was no support elsewhere in the world on this subject at all. Therefore, there was no chance of doing anything on that subject in terms of the language of the Ministerial Declaration itself because that required consensus of all the participating nations, and there was no chance whatsoever to achieve consensus on Ministerial Declaration language on that highly controversial subject.

What we did seek to do, though, Congressman Pease, is try to get some language in the wrap-up comments of Foreign Minister Iglesias, the chairman of the meeting, that would call attention to this as a legitimate issue. We have not yet seen copies of his comments, so we don't know if we were successful in doing so or not. We had presented language to him and asked that he include it in the final wrap-up, which is an important document. This should not be considered in any way as a throwaway, Mr. Pease, because the wrap-up by the chairman in an international meeting of this nature is considered to be a very significant document in terms of the follow-up to that meeting in the negotiations.

So even though it is not a part of the Ministerial Declaration, it is still a very very important paper. So we were concerned about that, and we felt that was our best opportunity to strike a blow for worker rights in Punta del Este.

But all of that came to a conclusion under such difficult circumstances that there was just no time to get copies. I am not sure he even had a written text at the end of the meeting, because there was so little time involved. As you probably know, we wrapped up at 6 a.m. on Saturday morning, and then we did the final session 4 hours later, at 10. So a lot of work had to be done to prepare for that final session and almost no time at all, nobody had slept for

almost 72 hours, so I suspect the chairman may have taken a couple hours of sleep time in there before he went to work on his final wrap-up comments.

As soon as we find out what the content of that document was, we will obviously share it with the subcommittee and share it with you, too.

The only other comment I would add, Mr. Chairman, obviously is at some point in time we are going to need some additional negotiating authority. That doesn't have to occur between now and the end of this Congress, although it would be desirable if it did. We are running out of time in this Congress, as you know, and if we can't deal with that issue now, as a practical matter, we need to deal with it in 1987.

In my judgment, the atmosphere that prevails internationally is one that we should foster in the next 4 years through this negotiating process. It is imperative that the United States take a leadership role in the new GATT round and try to make sure that it accomplishes the laudable objectives that were articulated in Punta del Este.

I was delighted with the atmosphere that prevailed at the end of that meeting. I really believe that all of the major trading nations of the world recognize that we have severe problems in world trade today, immense strains on the system, and that those strains and those problems call for a decisive resolution in the next few years. That simply has to be the conclusion of what transpired in Punta del Este.

But there are some major messages that came out of that conference as far as I am concerned, and one which is very encouraging to me is that a lot of the north-south polemics have begun to disappear. We are seeing lesser developed countries now who are coming into a conference like that with a very positive attitude and an attitude that is not confrontational with the developed world.

There were many LDC's in Punta del Este who supported essentially every position we took at that conference, and that is a welcome change from the kind of polemic that existed not very many years ago. We are seeing some major changes in ways in which the world functions from an economic viewpoint, and some major political realignments and a significant move toward a more market oriented economy in a lot of countries.

That whole environment to me demonstrates that we have what is tritely called a window of opportunity to achieve some things in international trade in the next 5 years, Mr. Chairman, that I suspect might not have been achievable in the last 25 years I hope as a nation we take advantage of that, because I am convinced that would be good for the world and good for the United States.

[The statement of Ambassador Clayton Yeutter follows:]

Testimony on the Results of the GATT Ministerial

Ambassador Clayton Yeutter
United States Trade Representative
before the
Subcommittee on Trade
Committee on Ways and Means
U.S. House of Representatives

September 25, 1986

Mister Chairman and Members of the Subcommittee, I am pleased to appear before you today to discuss the new, comprehensive round of multilateral trade negotiations. The launching of the Uruguay Round, as it will be known, is a major victory for the principles of free and fair trade.

We achieved what many thought was impossible -- an international commitment to resist protectionism, strengthen existing rules, and expand the multilateral trade system to cover major areas currently not under effective GATT disciplines. We have made a very good start toward a strengthened and expanded GATT to meet changing global economic conditions.

This past February when I appeared before this Subcommittee, I explained that the initiation of a new GATT round would be the best way for GATT member countries to achieve fairer trade, improve access for exports, provide more effective dispute settlement resolution, and strengthen the fabric of the international trading system. I also identified several key objectives that the Administration was seeking in these negotiations.

I am now pleased to report that we came away from the Punta del Este Ministerial meeting having achieved all of the objectives we identified. Multilateral negotiations will soon get underway on the full range of trade problems confronting us.

The negotiations will be tough, for there is much at stake and much work to be done. But, we are optimistic that these negotiations will produce multilateral agreement on new rules and disciplines that will open significant new opportunities for American exporters and strengthen the global trading system so that all can compete on fair terms.

I should also note, that while Congressional representation on the U.S. delegation was numerically "thin" because of the press of business here in Washington and in home districts, the work done by Congressman Bill Frenzel of this Subcommittee more than compensated for our lack of depth. Bill did a superb job in helping convey our message to our trading partners.

Status of U.S. Negotiating Objectives

Following seven months of preparatory discussions in Geneva, the trade ministers of the 92 GATT member countries met last week in Punta del Este, Uruguay to launch a new round of multilateral negotiations. As the final text of the Ministerial Declaration states, the ministers agreed on a comprehensive program for negotiations encompassing all issues of interest to all countries. Of particular importance to the United States was the clear consensus to begin negotiations on the critical issues of agriculture, services, intellectual property, investment and dispute settlement.

I would like to summarize the highlights of the agenda for these negotiations.

Agriculture

It is time that we put an end to the chaos in trade in agriculture. Trying to treat agriculture with a different set of rules from trade in industrial goods has produced nothing but turmoil, inequities, and massive distress for farmers in this country and around the world.

The terms of the Ministerial Declaration put all agricultural trade issues on the table and recognize the urgent need to address this critical problem. At the top of our list is agricultural subsidies, which are hurting our efficient farmers and busting budgets around the world. We will also go after the full range of market access restrictions affecting agricultural trade, including those based on phony health standards.

The strength of the Ministerial Declaration on agriculture is due in large part to Secretary Lyng, who resisted efforts by some to weaken and narrow the terms of the negotiating mandate. We will push forcefully to turn this Ministerial mandate into concrete results as soon as possible, hopefully within two years.

Services

The launching of negotiations on services is one of the most important achievements of the Punta del Este meeting. For the first time we have an international consensus to liberalize markets for service industries and develop legally binding rules governing such trade.

As this Subcommittee is aware, this was a major objective for the U.S., because of the growing role of the services sector both domestically and globally. Services now account for 75 percent of U.S. employment, and there are Government estimates that 90 percent of all the new jobs that will be created in the U.S. over the next decade are in this sector. Although the negotiations will be complex and probably contentious, we need multilateral rules and disciplines to make trade in services as open as possible.

The Ministers agreed in Uruguay to the negotiation of both general and sector specific rules and disciplines in services. Though this part of the new round was launched by "Ministers" rather than by "Contracting Parties", the services negotiations, as well as all other negotiations of the Uruguay Round, will be conducted under the aegis of a single Trade Negotiating Committee. The entire exercise will be a single undertaking, carried out under the rules and procedures of the GATT, with staff support to come from the GATT Secretariat.

At the conclusion of the Uruguay Round, the work product of all negotiating groups will be presented by the Trade Negotiating Committee at a Ministerial meeting comparable to the one which launched the round. We are satisfied that this structure, which was debated intensely at Punta del Este, provides the necessary flexibility for an optimal negotiating result, and for precluding the isolation of services from other elements of the negotiation.

Intellectual Property Protection

In Punta del Este, we reached agreement on a broad negotiating mandate for intellectual property, including trade in counterfeit goods, that will enable us to attack the problems of weak rules and inadequate enforcement. Secretary Baldrige contributed in a major way to this success.

Trade distortions arising from piracy, misappropriation and infringement of others' intellectual property is a critical issue for current and future U.S. trade, as this Subcommittee is well aware. The Administration has undertaken a number of bilateral initiatives to correct intellectual property problems abroad, through the use of our Section 301 and GSP laws. The Punta del Este decision gives us an important new tool to address this issue. The GATT negotiations will make an important contribution by developing a more effective multilateral system for preventing piracy of intellectual property rights that now cost us billions of dollars each year.

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Investment

In my remarks to you last February, I explained the urgent need for the new negotiations to result in an improved international investment climate, so that trade would expand and lead to greater economic growth around the world. In particular, we argued that negotiations should aim to minimize the distorting effects of government investment policies, which can themselves be non-tariff barriers to trade.

The ministers, recognizing the close link between trade, investment and economic growth, agreed that the Uruguay Round's effort on investment should begin with an examination of the operation of the GATT Articles concerning the trade restrictive and distorting effects of investment measures, and culminate in negotiations on improvements in these provisions.

Dispute Settlement

One of the major functions of the GATT is to resolve disputes between its member countries. Some conspicuous failures of the existing dispute settlement process, particularly in recent years, have undermined public confidence in the system. All GATT members have a stake in building a credible dispute settlement mechanism.

In Punta del Este, the ministers agreed that we need to strengthen the rules and procedures of the dispute settlement process, including the development of improved arrangements for assuring compliance. I was very pleased with the degree of consensus on the need to repair the dispute settlement system. Strengthened trade rules will be of little value without effective enforcement.

Safeguards (Escape Clause Actions)

The term safeguards refers to the emergency actions taken by governments to protect domestic industries from an influx of imports, thereby giving them time to adjust to competition. Most current safeguard practices, however, have been taken outside the relevant GATT provisions.

Ministers agreed that negotiations should aim to develop a comprehensive agreement encompassing the use of all safeguard actions, and ensure that such measures are transparent, remain temporary, and contribute to -- not retard-- adjustment, without shifting the burden to other trading countries.

Improvements in GATT Articles and Codes

During the preparatory discussions leading up to the Ministerial meeting, a number of countries identified problems with the operation of GATT Articles and suggested that these be addressed as part of the Uruguay Round. In addition, some countries suggested that the GATT review its first effort to negotiate meaningful international disciplines over non-tariff barriers, build on our experience with the codes over the past six years, expand participation, update certain provisions, and strengthen and improve their operation.

The ministers agreed to improve the operation and coverage of GATT Articles and and MTN Agreements and Arrangements, including Subsidies and Countervailing Measures, as part of the Uruguay Round. For our part, we intend to give particular attention to the government procurement, aircraft and subsidies codes, as well as GATT provisions in areas such as state-trading.

Market Access

The Ministerial Declaration calls for negotiations to expand market access by reducing both tariff and nontariff

barriers to trade, and liberalize trade in tropical products and natural resource-based products.

As I noted last February, the primary focus of the negotiations will be to develop new rules and disciplines over government policies affecting trade. However, our private sector advisors have identified a number of objectives in the tariff area, which we intend to pursue. In this connection, let me stress that we have no intention of paying again for concessions we made in previous rounds, and we do not intend to distort the overall balance of concessions we have with our trading partners.

In addition to these specific issues for negotiation, all ministers gave their political pledge throughout these negotiation to refrain from taking new protectionist actions contrary to the rules of the GATT system. Ministers also pledged to phase-out any existing illegal measures that currently plague the trading system. Obviously, the proof of the pudding will be in the eating, but we see this pledge as a positive step against protectionism, while retaining our full GATT rights.

Timeframe for the Negotiations

The ministers established a Trade Negotiations Committee (TNC) to carry out the Uruguay Round. The TNC will meet for the first time in October to complete an organizational structure for the negotiations and choose chairmen for the various negotiating groups. Actual negotiations will commence early next year with a four year target date for completion.

Given the length of the negotiations and the urgency to reach agreements to strengthen and improve the trading system, the Ministerial Declaration notes that agreements reached at an early stage may be implemented on a provisional or definitive basis prior to the formal conclusion of the negotiations. We will strive, in particular, to complete the agriculture negotiation on a fast track.

The Subcommittee also will be interested to know that the Ministerial Declaration contains a provision that will enable us to include additional subject matter in the negotiations as the Round moves forward.

Role of the Private Sector

Over the past 18 months, the Administration has engaged in an intensive series of consultations with our private sector advisors to identify U.S. negotiating objectives and priorities for the new round. Our consultations with each of the 41 committees were instrumental in identifying key U.S. objectives and concerns for the negotiations.

Twelve representatives from the private sector advisory committees joined with Congressional and Executive Branch representatives to form the U.S. delegation for the Punta del Este Ministerial meeting. The private sector advisors were particularly effective in persuading foreign delegations of the keen interest of the U.S. business community in seeing negotiations get underway in the critical areas of agriculture, services, intellectual property and investment.

Now that the negotiations are launched, the very difficult work of identifying specific negotiating positions lies before us. The Administration will be intensifying consultations with our private sector advisors and with Congress as the negotiations get underway this fall. To be successful, the new round must strengthen and improve the trading rules so that they work more efficiently and effectively for the benefit of all Americans and our trading partners. To this end, we will need to collaborate on how best to obtain the necessary data and develop specific negotiating positions on individual issues.

Need for Additional Negotiating Authority

My comments on the extension and expansion of negotiating authority for the Uruguay Round are in two parts:

First, with respect to non-tariff trade barriers, our current authority under Section 102 of the Trade Act of 1974 expires January 3, 1988. An extension of that provision would be useful so that we can negotiate reciprocal reductions on non-tariff barriers in the Uruguay Round and beyond. I see no reason why this authority should not be made permanent. We will assuredly need it for decades to come.

Second, we lack authority to negotiate reductions in tariff levels, either in the Uruguay Round or in other negotiating fora. In contrast to previous trade negotiations, we do not expect tariffs to be a major element of the new negotiations. Nevertheless, our private sector advisors have identified a number of important objectives to be achieved in the tariff area, such as reducing high foreign tariffs on paper, furniture, carpeting, and a number of agricultural products. They also have expressed considerable interest in binding the currently unbound tariffs of many developing and a few developed countries.

We intend to take up these matters as part of broader negotiations on market access but we cannot expect our trading partners to discuss the reduction of their tariffs unless we are prepared to discuss ours. In my view, we could best achieve the objectives of the business community if we were to have tariff authority like that granted in the Tokyo Round and all previous negotiating rounds, both for the Uruguay Round and for other negotiations such as bilateral or plurilateral free trade agreements.

Conclusion

U.S. participation in the Ministerial meeting was a team effort. Our achievement would not have been possible without the contributions of a strong interagency team, and in particular Secretary Baldrige and Secretary Lyng. Their active participation demonstrated that the Reagan Administration is committed at the highest level to trade liberalization. Their negotiating abilities were also essential to resolving some of the most important and difficult issues.

While the U.S. worked very hard to ensure a successful outcome, the decision by the trade ministers to launch the Uruguay Round should not be seen as an achievement just for the United States. It is a victory for the GATT system itself, because reducing trade barriers and strengthening disciplines in the GATT will benefit all countries. The 92 members of the GATT have joined together by consensus to begin negotiations that will repair and restore the multilateral trading system.

Launching the Uruguay Round is a major step forward toward achieving our goal of trade liberalization, but it is only a first step. It will be several years before our efforts bear fruit. In the interim, the United States must continue to pursue policies that enhance trade opportunities, including the aggressive enforcement of U.S. laws that address the problems of unfair trading practices by our trading partners.

MINISTERIAL DECLARATION ON THE URUGUAY ROUND

Ministers, meeting on the occasion of the Special Session of CONTRACTING PARTIES at Punta del Este, have decided to launch Multilateral Trade Negotiations (The Uruguay Round). To this end, they have adopted the following Declaration. The Multilateral Trade Negotiations (MTN) will be open to the participation of countries as indicated in Parts I and II of this Declaration. A Trade Negotiations Committee is established to carry out the Negotiations. The Trade Negotiations Committee shall hold its first meeting not later than 31 October 1986. It shall meet as appropriate at Ministerial level. The Multilateral Trade Negotiations will be concluded within four years.

PART I

NEGOTIATIONS ON TRADE IN GOODS

The CONTRACTING PARTIES meeting at Ministerial level

DETERMINED	to halt and reverse protectionism and to remove distortions to trade
DETERMINED	also to preserve the basic principles and to further the objectives of the GATT
DETERMINED	also to develop a more open, viable and durable multilateral trading system
CONVINCED	that such action would promote growth and development
MINDFUL	of the negative effects of prolonged financial and and monetary instability in the world economy, the indebtedness of a large number of less developed contracting parties, and considering the linkage between trade, money, finance and development
DECIDE	to enter into Multilateral Trade Negotiations on trade in goods within the framework and under the aegis of the General Agreement on Tariffs and Trade.

A. OBJECTIVES

Negotiations shall aim to:

(i) bring about further liberalization and expansion of world trade to the benefit of all countries, especially less-developed contracting parties, including the improvement of access to markets by the reduction and elimination of tariffs, quantitative restrictions and other non-tariff measures and obstacles;

(ii) strengthen the role of GATT, improve the multilateral trading system based on the principles and rules of the GATT and bring about a wider coverage of world trade under agreed, effective and enforceable multilateral disciplines;

(iii) increase the responsiveness of the GATT system to the evolving international economic environment, through facilitating necessary structural adjustment, enhancing the relationship of the GATT with the relevant international organizations and taking account of changes in trade patterns and prospects, including the growing importance of trade in high technology products, serious difficulties in commodity markets and the importance of an improved trading environment providing, *inter alia*, for the ability of indebted countries to meet their financial obligations.

(iv) foster concurrent cooperative action at the national and international levels to strengthen the inter-relationship between trade policies and other economic policies affecting growth and development, and to contribute towards continued, effective and determined efforts to improve the functioning of the international monetary system and the flow of financial and real investment resources to developing countries.

B. GENERAL PRINCIPLES GOVERNING NEGOTIATIONS

(i) Negotiations shall be conducted in a transparent manner, and consistent with the objectives and commitments agreed in this Declaration and with the principles of the General Agreement in order to ensure mutual advantage and increased benefits to all participants.

(ii) The launching, the conduct and the implementation of the outcome of the negotiation shall be treated as parts of a single undertaking. However, agreements reached at an early stage may be implemented on a provisional or a definitive basis by agreement prior to the formal conclusion of the Negotiations. Early agreements shall be taken into account in assessing the overall balance of the negotiations.

(iii) Balanced concessions should be sought within broad trading areas and subjects to be negotiated in order to avoid unwarranted cross-sectoral demands.

(iv) CONTRACTING PARTIES agree that the principle of differential and more favorable treatment embodied in Part IV and other relevant provisions of the General Agreement and in the Decision of the CONTRACTING PARTIES of 28 November 1979 on Differential and More Favourable Treatment, Reciprocity and Fuller Participation of Developing Countries applies to the negotiations. In the implementation of standstill and rollback, particular care should be given to avoiding disruptive effects on the trade of less-developed contracting parties.

(v) The developed countries do not expect reciprocity for commitments made by them in trade negotiations to reduce or remove tariffs and other barriers to the trade of developing countries, i.e. the developed countries do not expect the developing countries, in the course of trade negotiations, to make contributions which are inconsistent with their individual development, financial and trade needs. Developed contracting parties shall therefore not seek, neither shall less-developed contracting parties be required to make, concessions that are inconsistent with the latters' development, financial and trade needs.

(vi) Less-developed contracting parties expect that their capacity to make contributions or negotiated concessions or take other mutually agreed action under the provisions and procedures of the General Agreement would improve with the progressive development of their economies and improvement in their trade situation and they would accordingly expect to participate more fully in the framework of rights and obligations under the General Agreement.

(vii) Special attention shall be given to the particular situation and problems of the least-developed countries and to the need to encourage positive measures to facilitate expansion of their trading opportunities. Expeditious implementation of the relevant provisions of the 1982 Ministerial Declaration concerning the least-developed countries shall also be given appropriate attention.

C. STANDSTILL AND ROLLBACK

Commencing immediately and continuing until the formal completion of the Negotiations, each participant agrees to apply the following commitments:

Standstill

(i) not to take any trade restrictive or distorting measure inconsistent with the provisions of the General Agreement or the Instruments negotiated within the framework of GATT or under its auspices;

(ii) not to take any trade restrictive or distorting measure in the legitimate exercise of its GATT rights, that would go beyond that which is necessary to remedy specific situations, as provided for in the General Agreement and the Instruments referred to in (i) above;

(iii) not to take any trade measures in such a manner as to improve its negotiating positions.

Rollback

(i) that all trade restrictive or distorting measures inconsistent with the provisions of the General Agreement or Instruments negotiated within the framework of GATT or under its auspices, shall be phased out or brought into conformity within an agreed timeframe not later than by the date of the formal completion of the negotiations, taking into account multilateral agreements, undertakings and understandings, including strengthened rules and disciplines, reached in pursuance of the Objectives of the Negotiations;

(ii) there shall be progressive implementation of this commitment on an equitable basis in consultations among participants concerned, including all affected participants. This commitment shall take account of the concerns expressed by any participant about measures directly affecting its trade interests;

(iii) there shall be no GATT concessions requested for the elimination of these measures.

Surveillance of standstill and rollback

Each participant agrees that the implementation of these commitments on standstill and rollback shall be subject to multilateral surveillance so as to ensure that these commitments are being met. The Trade Negotiations Committee will decide on the appropriate mechanisms to carry out the surveillance, including periodic reviews and evaluations. Any participant may bring to the attention of the appropriate surveillance mechanism any actions or omissions it believes to be relevant to the fulfillment of these commitments. These notifications should be addressed to the GATT secretariat which may also provide further relevant information.

D. SUBJECTS FOR NEGOTIATIONS

Tariffs

Negotiations shall aim, by appropriate methods, to reduce or, as appropriate, eliminate tariffs including the reduction or elimination of high tariffs and tariff escalation. Emphasis shall be given to the expansion of the scope of tariff concessions among all participants.

Non-tariff Measures

Negotiations shall aim to reduce or eliminate non-tariff measures, including quantitative restrictions, without prejudice to any action to be taken in fulfillment of the rollback commitments.

Tropical Products

Negotiations shall aim at the fullest liberalization of trade in tropical products, including in their processed and semi-processed forms and shall cover both tariff and all non-tariff measures affecting trade in these products.

CONTRACTING PARTIES recognize the importance of trade in tropical products to a large number of less developed contracting parties and agree that negotiations in this area shall receive special attention, including the timing of the negotiations and the implementation of the results as provided for in B(ii).

Natural Resource-Based Products

Negotiations shall aim to achieve the fullest liberalization of trade in natural resource-based products, including in their processed and semi-processed forms. The negotiations shall aim to reduce or eliminate tariff and non-tariff measures, including tariff escalation.

Textiles and Clothing

Negotiations in the area of textiles and clothing shall aim to formulate modalities that would permit the eventual integration of this sector into GATT on the basis of strengthened GATT rules and disciplines, thereby also contributing to the objective of further liberalization of trade.

Agriculture

CONTRACTING PARTIES agree that there is an urgent need to bring more discipline and predictability to world agricultural trade by correcting and preventing restrictions and distortions including those related to structural surpluses so as to reduce the uncertainty, imbalances and instability in world agricultural markets.

Negotiations shall aim to achieve greater liberalization of trade in agriculture and bring all measures affecting import access and export competition under strengthened and more operationally effective GATT rules and disciplines, taking into account the general principles governing the negotiations, by:

(i) improving market access through, inter alia, the reduction of import barriers;

(ii) improving the competitive environment by increasing discipline on the use of all direct and indirect subsidies and other measures affecting directly or indirectly agricultural trade, including the phased reduction of their negative effects and dealing with their causes;

(iii) minimizing the adverse effects that sanitary and phytosanitary regulations and barriers can have on trade in agriculture, taking into account the relevant international agreements.

In order to achieve the above objectives, the negotiating group having primary responsibility for all aspects of agriculture will use the recommendations adopted by the CONTRACTING PARTIES at their Fortieth Session, which were developed in accordance with the GATT 1982 Ministerial Programme and take account of the approaches suggested in the work of the Committee on Trade in Agriculture without prejudice to other alternatives that might achieve the objectives of the Negotiations.

GATT Articles

Participants shall review existing GATT articles, provisions and disciplines as requested by interested contracting parties, and, as appropriate, undertake negotiations.

Safeguards

(i) A comprehensive agreement on safeguards is of particular importance to the strengthening of the GATT system and to progress in the MTN's.

(ii) The agreement on safeguards:

- shall be based on the basic principles of the General Agreement;
- shall contain, inter alia, the following elements: transparency, coverage, objective criteria for action including the concept of serious injury or threat thereof, temporary nature, degressivity and structural adjustment, compensation and retaliation, notifications, consultation, multilateral surveillance and dispute settlement; and
- shall clarify and reinforce the disciplines of the General Agreement and should apply to all contracting parties.

MTN Agreements and Arrangements

Negotiations shall aim to improve, clarify, or expand, as appropriate, agreements and arrangements negotiated in the Tokyo Round of Multilateral Negotiations.

Subsidies and Countervailing Measures

Negotiations on subsidies and countervailing measures shall be based on a review of Articles VI and XVI and the MTN agreement on subsidies and countervailing measures with the objective of improving GATT disciplines relating to all subsidies and countervailing measures that affect international trade. A negotiating group will be established to deal with these issues.

Dispute Settlement

In order to ensure prompt and effective resolution of disputes to the benefit of all contracting parties, negotiations shall aim to improve and strengthen the rules and the procedures of the dispute settlement process, while recognizing the contribution that would be made by more effective and enforceable GATT rules and disciplines. Negotiations shall include the development of adequate arrangements for overseeing and monitoring of the procedures that would facilitate compliance with adopted recommendations.

Trade Related Aspects of Intellectual Property Rights, including Trade in Counterfeit Goods

In order to reduce the distortions and impediments to international trade, and taking into account the need to promote effective and adequate protection of intellectual property rights, and to ensure that measures and procedures to enforce intellectual property rights do not themselves become barriers to legitimate trade, the negotiations shall aim to clarify GATT provisions and elaborate as appropriate new rules and disciplines.

Negotiations shall aim to develop a multilateral framework of principles, rules and disciplines dealing with international trade in counterfeit goods, taking into account work already undertaken in the GATT.

These negotiations shall be without prejudice to other complementary initiatives that may be taken in the World Intellectual Property Organization and elsewhere to deal with these matters.

Trade-Related Investment Measures

Following an examination of the operation of GATT Articles related to the trade restrictive and distorting effects of investment measures, negotiations should elaborate, as appropriate, further provisions that may be necessary to avoid such adverse effects on trade.

E. FUNCTIONING OF THE GATT SYSTEM

Negotiations shall aim to develop understandings and arrangements:

(i) to enhance the surveillance in the GATT to enable regular monitoring of trade policies and practices of contracting parties and their impact on the functioning of the multilateral trading system;

(ii) to improve the overall effectiveness and decision-making of the GATT as an institution, including, inter alia, through involvement of ministers;

(iii) to increase the contribution of the GATT to achieving greater coherence in global economic policy-making through strengthening its relationship with other international organizations responsible for monetary and financial matters.

F. PARTICIPATION

(a) Negotiations will be open to:

(1) all contracting parties,

(2) countries having acceded provisionally,

(3) countries applying the GATT on a de facto basis having announced, not later than 30 April 1987, their intention to accede to the GATT and to participate in the negotiations,

(4) countries that have already informed the CONTRACTING PARTIES, at a regular meeting of the Council of Representatives, of their intention to negotiate the terms of their membership as a contracting party, and

(5) developing countries that have, by 30 April 1987, initiated procedures for accession to the GATT, with the intention of negotiating the terms of their accession during the course of the negotiations.

(b) Participation in negotiations relating to the amendment or application of GATT provisions or the negotiation of new provisions will, however, be open only to contracting parties.

G. ORGANIZATION OF THE NEGOTIATIONS

A Group of Negotiations on Goods (GNG) is established to carry out the programme of negotiations contained in this Part of the Declaration. The GNG shall, inter alia:

(i) elaborate and put into effect detailed trade negotiating plans prior to 19 December 1986;

(ii) designate the appropriate mechanism for surveillance of commitments to standstill and rollback;

(iii) establish negotiating groups as required. Because of the interrelationship of some issues and taking fully into account the general principles governing the negotiations as stated in B(iii) above it is recognized that aspects of one issue may be discussed in more than one negotiating group. Therefore each negotiating group should as required take into account relevant aspects emerging in other groups;

(iv) also decide upon inclusion of additional subject matters in the negotiations;

(v) co-ordinate the work of the negotiating groups and supervise the progress of the negotiations. As a guideline not more than two negotiating groups should meet at the same time;

(vi) the GNG shall report to the Trade Negotiations Committee.

In order to ensure effective application of differential and more favourable treatment the GNG shall, before the formal completion of the negotiations, conduct an evaluation of the results attained therein in terms of the Objectives and the General Principles Governing Negotiations as set out in the Declaration, taking into account all issues of interest to less-developed contracting parties.

PART II

NEGOTIATIONS ON TRADE IN SERVICES

Ministers also decided, as part of the Multilateral Trade Negotiations, to launch negotiations on trade in Services.

Negotiations in this area shall aim to establish a multilateral framework of principles and rules for trade in services, including elaboration of possible disciplines for individual sectors, with a view to expansion of such trade under conditions of transparency and progressive liberalization and a means of promoting economic growth of all trading partners and the development of developing countries. Such framework shall respect the policy objectives of national laws and regulations applying to services and shall take into account the work of relevant international organizations.

GATT procedures and practices shall apply to these negotiations. A Group on Negotiations on Services is established to deal with these matters. Participation in the negotiations under this Part of the Declaration will be open to the same countries as under Part I. GATT secretariat support will be provided, with technical support from other organizations as decided by the Group on Negotiations on Services.

The Group on Negotiations on Services shall report to the Trade Negotiations Committee.

IMPLEMENTATION OF RESULTS UNDER PARTS I AND II

When the results of the Multilateral Trade Negotiations in all areas have been established, Ministers meeting also on the occasion of a Special Session of CONTRACTING PARTIES shall decide regarding the international implementation of the respective results.

Chairman GIBBONS. Mr. Ambassador, we are going to take a break right now and vote. We will be right back. So we will stand adjourned for about 7 or 8 minutes.

[Recess.]

Chairman GIBBONS. First, we thank you for your patience, Mr. Ambassador, waiting for us to come back from this vote.

Ambassador YEUTTER. My pleasure.

Chairman GIBBONS. I intended to ask you a lot of questions that I am not going to ask you, because I think it would begin to tip your hand as far as strategy for negotiations are concerned, and I would hope perhaps you could refrain from answering some questions other Members may ask that might tip your hand.

We are entering into a new phase now of what our negotiating strategy should be. Whenever we conduct hearings on negotiating strategy in the future they will be behind closed doors, as has been the tradition in this committee and in this country for some time.

To repeat again, I am very satisfied, and I think most of the Members of Congress are very satisfied, with the remarkable amount of unanimity that came out of Punta del Este. We realize it required a lot of preparation and a lot of good, skillful leadership, and for that we commend you.

I am, to some extent, worried about the timetable: One, of course, we are going to have a Presidential election in the meantime. Two, the reluctance of Congress to sit still for a long, long time while we are running this tremendous imbalance of trade. For those reasons, I would like for us to proceed as rapidly as is humanly possible in getting these negotiations down to earnest considerations.

It has been my observation in the past that if we had too long a timetable, as in all human endeavors, people get to postpone until the deadline making the hard decisions. That is human nature.

How long is it going to take you and your people to prepare for these negotiations? When can we expect to get started?

Ambassador YEUTTER. An excellent question, Mr. Chairman, and one about which I had some discussion with some of my counterparts around the world when we were in Punta del Este, because it is important that all of us get tooled up as quickly as possible and move forward as quickly as possible.

I fully agree with you that this is not the time to twiddle our thumbs for 3 or 4 years before we get down to serious business. There are just too many major trade problems for the world as a whole, and too big a challenge for the United States in dealing with a $150 billion to $200 billion trade deficit. So, it is in everyone's interest to get this process rolling and get it moving just as soon as we can.

As is usually the case, the United States will have to be the pusher. Unless we push, it is not likely to happen. So we, as a nation, must be prepared to push. And, as you indicated, that means that we have to be prepared, because there is no point in pushing unless we know where we are going.

We have to have our own act together. I am convinced we can get our own act together very quickly on most of these issues. By quickly, I mean within the next few months. And I would hope as

we move past the first of the year, we will be ready to roll in any negotiating group that is established.

Some of the other nations will not be ready that quickly, and in fact many of them made that point in Punta, particularly with respect to investment. I had a lot of delegates in Punta come up to me and say, "We don't necessarily oppose your view that investment ought to be included on the agenda, but we are just plainly not ready, and we don't really want to get into an investment negotiation with you when we don't know what we are doing. So, please, buy us some time and give us a chance to get prepared."

Well, we were somewhat accommodating in that regard, but only to a point, because we don't want to reward procrastination in that or any other area.

Let me provide a couple of philosophical observations, if I may, that might at least give some additional comfort. First of all, I am convinced, Mr. Chairman, that this round of negotiations is going to be a lot different from past rounds in a whole variety of ways, and some of those differences are going to work to our advantage from a timing standpoint.

One is that there is no reason why we shouldn't move some of these groups to a negotiating conclusion more rapidly than others, and get them implemented, even if they are not totally self-balancing, as people say.

The Ministerial Declaration provides for debits and credits to be carried over to the end of the day, so there is no reason we can't negotiate an agreement in agriculture, and maybe we are going to come out as net debtor in that process, whatever it might be.

Let's balance it out against the total picture at the end of the day. That shouldn't prevent us from implementing what we have in agriculture. Let's implement it and get it going. I really believe there is a good consensus now among the major nations to have that sort of thing happen, to get certain segments of negotiations concluded and move into an implementation phase where they can begin to deal with some of the major problems of the world.

I see that happening hopefully in agriculture. It could happen to safeguards; it could happen in the counterfeiting code, which was also negotiated in the Tokyo round.

And, in my judgment, Mr. Chairman, it might well happen even in services where a framework agreement, an umbrella agreement, could be negotiated much more rapidly than individual sector agreements.

So there are at least four or five areas where it seems to me not at all unrealistic to expect negotiating results within a period of 2 years. And if we can move some of those major areas out to a conclusion that would be beneficial, it would be really helpful.

I don't mean to exclude others. I think there may be others in which the same could apply.

The second point I would make with respect to the negotiation as a whole is that I am convinced, Mr. Chairman, that nations do not need to put experts in Geneva on everything under the Sun in order to carry out these negotiations. Putting it another way, it seems to me that we can reduce logistics of the Uruguay round as opposed to the logistics of the Tokyo round.

The Tokyo round, there were hundreds of people in Geneva involved in the negotiating process, and it is a massive task to get everybody in place and everybody prepared for the negotiations.

In this round, I would like to see a lot more people go back and forth from Washington to Geneva as needed in the negotiations, rather than being stationed full time in Geneva. What has happened, as you know very well, we are moving now into negotiations in some highly specific areas where specialized expertise is very important, and people who are generalists in trade policy cannot handle all of these negotiations.

So, we are going to have to take the specialists, whomever they may be, from whatever department they may be from, and send them over to Geneva for 2 weeks, or whatever is necessary when we sit down to talk about a particular issue, and bring them back home and send the next group of specialists over to deal with the next issue.

My judgment is that is a more efficient and cost-effective way to do it, but it also may speed up the negotiating process because you can get the key specialists in these areas into a negotiating phase at an earlier time period than might otherwise be necessary.

Chairman GIBBONS. That is very interesting, and I would tend to agree with you. I think establishing a very large delegation in Geneva tends to be self-defeating. It tends to say to our private sector and the other people here who are interested that we are in control of the situation, and they begin to lose touch. I think you have a good suggestion there.

Ambassador YEUTTER. If I may make one additional point I forgot, and that is, if we say 4 years as a deadline and really mean it, people will try to accommodate to that. One of the reasons that we finished in Punta del Este on Saturday morning was because we said we were going to come home on Saturday morning. We kept saying all week long it was going to be wheels up on Saturday morning.

Some felt we would be willing to spend another week in Punta, and when it became obvious we weren't, they thought we had better get in gear and get this job done.

The same thing will happen in Geneva. People will twiddle their thumbs for 3 years if they have an opportunity to do so, and I would like to deprive them of that opportunity.

Chairman GIBBONS. I am saying this facetiously, but one person at one time, one observer, told me they thought the ideal place to hold a negotiation like this would be somewhere near the South Pole in a small tent without too much heat, or in the middle of the desert, in the Sahara, without any air conditioning and very little water, and you would get decisions very rapidly.

I don't advocate that, but I think sending a large delegation to Geneva can defeat a rapid conclusion, and I would urge you to follow the strategy you outlined.

What is the next thing to be done as far as the international community is concerned? Who is going to take the initiating step to get this agenda pulled together? And how rapidly can it be done?

Ambassador YEUTTER. The next discussion of all this will take place in Geneva. All of it from now on basically will take place in Geneva. So it will be our ambassadorial representatives there who

become the key figures in getting this organized—Ambassador Samuels, from our standpoint, and his counterparts in Geneva. They will probably be having some preliminary informal meetings in the next few days to prepare for a more formal session of the TNC by the end of October, to make definitive decisions on negotiating groups, and so on.

But there has to be work done in capitals, too, of course, because they will have to give instructions to people in Geneva on how to proceed. But I am convinced that that will move rather quickly, Mr. Chairman, because there was considerable discussion on all of this in Punta del Este, and all we really need to do is go back to Geneva and hone this a little bit and then they will be ready to go.

Then, of course, the primary delay is going to be countries not being as far along in preparations as we are; and there are a lot of countries in that category. And they will want to drag the negotiations along a bit until they get up to speed. And we are just going to have to encourage them to put their noses to the grindstone and get thoroughly prepared so we can move this process along.

Chairman GIBBONS. It would seem to me on agricultural negotiations you have two main antagonists—the European Community and Australia, and us caught somewhere in between. It would seem to me that agenda could be set very quickly, and we could move ahead very quickly.

Is that at all possible?

Ambassador YEUTTER. Yes. I have indicated to our European friends that I consider the timetable to be extremely important in that negotiation and in the best interest of both the European Community and the United States, because we are the two Governmental entities in the world who are spending the most money on these programs.

We are spending vast sums of money on agricultural programs of one sort or another, and we are creating an increasingly confrontational environment, not only between ourselves but with the rest of the world that receives the spinoff from confrontations that take place between the United States and the Community.

All of that has generated a lot of hostility around the world to both the Community and the United States. Mr. Chairman, most nations do understand the motivations of the United States in becoming more confrontational with the Community, which is simply to get the Community to the negotiating table in a serious manner on these issues for the first time. But, nonetheless, it is a painful process for people to stand aside and be swatted while that exercise moves to a conclusion.

But, yes, the answer, Mr. Chairman, is that we need to move the agricultural negotiations as rapidly as we can. I am convinced, Mr. Chairman—and, as you know, my background is agriculture; I spent a lifetime in this area—I am convinced that this negotiation will be the most important thing we do in agriculture between now and the end of the century.

We cannot solve this problem in the Halls of the U.S. Congress unilaterally. It just cannot be done. It has to be solved in a multilateral forum. We can maybe buy some time unilaterally; we can help American farmers through a painful adjustment period and ease their financial strains. But we cannot solve the problem here

in Washington, DC, either in the executive branch or the legislative branch of our Government, because it is an international problem. It is not a domestic problem.

Chairman GIBBONS. I have got two more questions, and they do not particularly relate to each other so I want to divide them here.

One, I am continually worried about the matter of harmful subsidies and all that. What area of these negotiations will the subject matter of subsidies be discussed in?

Ambassador YEUTTER. We did not discuss that issue to any great degree in Punta del Este, simply because it didn't carry with it the contentiousness of some of the other topics. However, there is broad consensus among all the major trading nations to deal with subsidies in a very decisive way in the new round.

It could be done in one of two ways. We could have a negotiating group that would deal with improvements in all of the codes that were negotiated in the Tokyo round, one of which was the subsidies code, which means that group will deal with subsidy problems, Government problems, and so on. Or, alternatively, it may be that the folks in Geneva may be persuaded subsidies have so many problems that the topic merits a negotiating group's status all on its own without being included with all other codes.

My judgment is that the leaning is toward the latter. In other words, we will probably have one negotiating group devoted entirely to subsidies.

Chairman GIBBONS. I have three questions.

Who, in Geneva, is going to be responsible to you for handling this matter, all these matters, for the United States?

Ambassador YEUTTER. This will be Ambassador Mike Samuels, who is now our lead Geneva representative.

Chairman GIBBONS. And the U.S. effort will be coordinated through Ambassador Samuels?

Ambassador YEUTTER. Correct.

Chairman GIBBONS. Now, how will all of this whole negotiation impact upon the ongoing negotiations we have with Canada to establish a free trading arrangement?

Ambassador YEUTTER. Another excellent question, because that does confuse a lot of people.

We have indicated everywhere, including Punta del Este, that we will continue to deal bilaterally with the trading nations of the world on issues during the Uruguay round. In other words, our bilateral discussions will not in any way be altered because of what is happening in Geneva.

We, likewise, have indicated from a philosophical standpoint we would prefer multilateral solutions to problems to bilateral solutions, and we will be giving a great deal of emphasis and attention to the Uruguay round.

We are also convinced that free trade arrangement negotiations, such as those now underway with Canada, are complimentary to the multilateral exercise and not competitive with it. There may be some competition in terms of the use of financial resources and the time commitment that we give to the two exercises, but we see the ultimate outcome of our Canadian negotiations as being beneficial in terms of advancing the cause of liberalized trade throughout the world, and not detrimental.

We intend to conduct ourselves in that manner. We believe the Government of Canada will do likewise. And those nations who are fearful that we are going to do something that would impede the progress in Geneva ought to relax, because we don't intend to do that.

Chairman GIBBONS. The people of Canada and the people of the United States should be assured that our intentions have not changed between now and prior to Punta del Este.

Ambassador YEUTTER. Not whatsoever, and I hope we both can provide that assurance so that process will move forward with vigor, as well.

Chairman GIBBONS. Thank you.

Mr. Frenzel.

Mr. FRENZEL. Mr. Chairman, I want to preface my questioning with the comment that I made earlier about the success of the mission to Punta del Este and how pleased I am about it.

I will note the chairman's remark at the beginning of the meeting when you and he were the only people in the room. If you do well, nobody cares; and if there had been a thousand snarling Congressmen at the table, it would have been a repeat of 1982 that they had come to talk about.

I congratulate you on great success and offer my condolences for the grind that is going to encompass the next 4 years. It is going to be a dog. If we actually made that 4-year timeframe, it would be a world record for a GATT round.

On the other hand, the U.S. public and U.S. Congress are snarling at your heels right now. Is it possible that we are going to be able to lock up some of these items so that we could be in a position to announce them earlier; or as usual, is it going to be a situation where everything becomes linked and people won't sign off on what is almost an agreement until they get something else down the pike?

Are you going to shoot for putting some of these things in the bank before they all get completed?

Ambassador YEUTTER. Absolutely, Mr. Frenzel. I really believe that we have a chance at fast-track results, using the term that I have coined for this process—fast-track results—in several areas, perhaps as many as four or five that might come to a conclusion within the first couple of years.

As you pointed out, that would be very beneficial psychologically in the United States, and, for that matter, elsewhere in the world. I see no reason why that should not be the case. We have to overcome some tradition in that regard, Mr. Chairman.

As you know, we have a long tradition of waiting until the end of the day to pull all these results together. But the world changes, and it seems to me we have a different negotiating environment than we had in prior rounds. We have topics that are much more discrete than they were in prior rounds, even though they ultimately interrelate, and we are dealing much more with codes of conduct than we were at an earlier time. And there is just no reason why a code of conduct shouldn't be implemented whenever it is ready, rather than held on a shelf.

Mr. FRENZEL. Is dispute settlement, then, one of those things that might be fast tracked?

Ambassador YEUTTER. Yes. I did not mention that in my colloquy with Chairman Gibbons, but certainly dispute settlement could follow along relatively quickly if we can get people to concentrate on it.

If, for example, we were to add arbitration provisions, I don't see why we couldn't put an arbitration system in place in one year in the GATT.

So, yes, I would like to move a number of those issues forward as quickly as we can.

Mr. FRENZEL. The next question deals with an item called standstill and rollback. As I understand it, the contracting parties agreed to some sort of standstill process, or maybe a rollback process; I am not wholly clear on it. And what that means is that countries have to remove recently erected barriers.

I noticed yesterday the House passed what is in effect a 15 percent add on to the total customs duty, and that is, I think, contrary to the spirit of the agreement or to the statement that was agreed to, and to the agenda.

Can you comment on that?

Ambassador YEUTTER. Certainly. We were a strong proponent of standstill/rollback commitments for the new GATT round for a variety of reasons. That was an issue that was debated at length over a period of many months in Geneva when the preparatory committee was in session.

The standstill and rollback language that emerged from those preparatory committee deliberations was unchanged in Punta del Este. It had been thought out with great vigor by all the parties, and in my judgment most parties did not want to go through that exercise again in Punta del Este.

The result was also one that was quite favorable to the United States because, as I indicated earlier in my testimony, I do not see those standstill/rollback commitments as impeding the use of trade laws that are of great importance to the United States.

If I may just cover that subject with some additional specificity, the one area of a rollback commitment that could cause us difficulties is the manufacturing clause. That clause has now been eliminated from the law of this Nation. But, as you know, there is still some pending attempts in both Houses to reenact the manufacturing clause before this Congress terminates. Were that to be done, that could put us in violation of the Punta del Este commitments on standstill and rollback, depending on the language that might emerge.

So, we have some concern with respect to the manufacturing clause in this regard, but also concern with respect to the issue that you mentioned, which is the so-called service fee for customs activities. If that service fee were to truly represent the cost of the service that is rendered, then we should be able to defend it under the standstill/rollback commitments of Punta del Este and under the GATT rules.

If, on the other hand, that provision of law generates more revenue, revenue in excess of the costs that are incurred in performing the service, my judgment is that we would clearly be in violation of the present GATT rules and also in violation of the standstill/rollback commitment.

Mr. FRENZEL. Thank you very much, Mr. Ambassador.

I want to make one—it is not really a question; it is a statement in amplification of your statement, directed mainly at Mr. Pease, because of his strong interest in labor standards.

I attended meetings with delegations from a number of countries, in Punta del Este, and raised the question of labor standards either formally or informally. There are difficulties, particularly with the LDC's, who look upon that as a way for us to lock the doors if they pay their people a little less.

I thought one of the reasons that would be of interest to the gentleman from Ohio is that at least one South American country was complaining bitterly about all the data they had to supply to you in connection with their statements on GSP. So that the good work of the gentleman from Ohio is beginning to bear some fruit; at least it is beginning to irritate some of our trading partners. So there has been an impact there.

And it is also fair to state some of our private sector advisers were working that problem there, too, which needs additional work at the ILO, as well.

I yield the balance of my time.

Chairman GIBBONS. Mr. Guarini.

Mr. GUARINI. Thank you, Mr. Chairman.

Mr. Ambassador, our nation is in good hands, and we are very pleased with your report and with your optimism. The last two rounds took 7 years, and that was supposed to be on the easy points. And now you are getting into the hard subject matter, but perhaps the climate of the world has changed, as you said, so people may be ready to accept those points.

Have you done anything with respect to countertrade—airports for oil, computers for bananas? Their hard currency is a real problem today, particularly from the lesser developed nations. I am wondering whether or not that is on your agenda?

That is expected to increase considerably from the 5 percent it is today. It may be 20 percent in the next few years.

Ambassador YEUTTER. I am pleased that you raised that issue, Mr. Guarini, because I fully concur with you that countertrade and other such mechanisms are likely to become increasingly prevalent in the future. Many of us believe that is a retrogression in the way international trade is conducted. But, nevertheless, it is a fact of life, and therefore we have to live with it. And we, as Americans, must adjust to it, and our firms must adjust to it.

I was just in California a couple of days ago, and one of our major exporting firms raised precisely that question with me, because that particular firm is more and more becoming involved in countertrade. So it is a live issue and one that probably will merit some attention in this round.

Mr. GUARINI. Is it on the agenda?

Ambassador YEUTTER. There is nothing that precludes it from being on the agenda. There is not likely to be a negotiating group for countertrade, but there is nothing at all that precludes us or anybody else from raising countertrade issues in any one of several negotiating groups.

It could be raised under a nontariff measure kind of group; it could be raised under the market access groups, which might be

even more logical. So, there will be ample opportunities for us to discuss countertrade issues in the new round.

Mr. GUARINI. Getting into modus operandi, you have 12 groups which will be headed by an American from your staff that would have target dates for reports that would be submitted. What is the modus operandi? And, do you have target dates for reports, because you said you need an extension of authorization?

Now your authorization, I think until January 1988. And the new House bill we passed was 1991. That was probably the only provision you may have been in agreement with.

Ambassador YEUTTER. No; there were two or three others.

Mr. GUARINI. Could you tell us how it is going to work, and are you going to come—after you complete an agreement with one of the committees, are we going to wait for everything to be done at one time, or are we going to have a series of multilateral agreements that we will approve of in order to put them in place without having to wait 4, 5, or 10 years?

Ambassador YEUTTER. As I indicated to Mr. Frenzel, I hope we will be able to do the latter, and have some of these coming back to you perhaps within 2 years. I would really like to see that occur. Some perhaps even more rapidly than that. That may be overly optimistic.

There is no reason we shouldn't bring some of those back, have them approved, and implement them, even though we may have to wait for the final settlement to be worked out at the end of the day. That is, some of them may not be self-balancing at the conclusion of that particular negotiation.

Now, how will it work? I used a dozen negotiating groups just as an illustration, but it will be somewhere in that ballpark. The exact number will be decided in the next 30 days in Geneva. That is a number that can be altered during the negotiation.

The Ministerial Declaration has specific language which provides the flexibility for the creation of additional negotiating groups as time passes; and that, too, Congressman Pease, may be of some relevance to your concerns, because we can raise worker rights or other new issues as possible agenda items as the negotiations unfold. So, we will start out with 8, 10, 12, whatever is ultimately decided in Geneva, and then alter that number as necessary during negotiations.

In terms of timetables, they will all proceed at their own pace, and it depends obviously on how those negotiations go. There is an agreement no more than two groups will meet in Geneva at any one time. That is just because of the logistical demands and the demands on the GATT Secretariat.

There is a general agreement that if you have agriculture and services going for the next 2 weeks, everybody will concentrate on those; and then, the following 2 weeks, there would be safeguards and something else might come along. So that is the way it will be done. Some groups might meet every month or every couple months; some groups less frequently.

Mr. GUARINI. Is this going to be ongoing, or is it just going to be adjourned without date, certain dates set? Are we really going to work at it until it is done, as you would a labor negotiation?

Ambassador YEUTTER. Yes. The intent, as expressed in the declaration, is to finish, in 4 years, everything; hopefully, some of them in less than 4 years. But the intent would be to have the entire package done, coming back to you and other nations of the world, in 4 years. That is very ambitious.

As Congressman Frenzel indicated, that has not been achieved in the past.

Mr. GUARINI. We wish you luck. It is no easy piece of cake, I know.

You have 92 nations that are signatories?

Ambassador YEUTTER. Yes.

Mr. GUARINI. Do you have many nations not there? Are there problems with some people not sitting at the table?

Ambassador YEUTTER. No; they will all be there. Not all of them were in Punta del Este. A few of the smaller countries did not bother to send delegations to Punta del Este—a matter of cost, probably. But all of them will be represented in Geneva, as well as a few additional nations who will have participation rights even though they are not yet members of the GATT. China is an example.

Mr. GUARINI. I was going to ask that.

Could you comment on China? It is a quarter of the population of the world, an emerging nation in trade. Could you comment on the direction China has taken, and also include our problems with Russia?

Ambassador YEUTTER. Sure.

With respect to China, the participation language of the Ministerial Declaration provides for the inclusion of China in the Uruguay round, and so the Chinese delegation will have a chance to become involved. There may be some differences of opinion among lawyers as to whether that is full-scale participation or something less than that, and I would rather not get into the middle of that legal debate this morning.

But, suffice it to say, China will be a participant in the Uruguay round. China, as you know, has applied for a renewal of its GATT membership, and those accession discussions will take place over the next few months. We will play a very lead role in that, obviously. If China is accepted into the GATT some time during the 4-year period of the Uruguay round, of course they will become a full-scale participant and have the same rights the United States would in the GATT exercise.

We have a very long, arduous accession negotiation ahead of us before that is reached. We feel that China is making substantial progress toward creating a more market-oriented and economic system that would be sufficiently compatible with the GATT to justify its emergence, reemergence, as a GATT member.

We are not convinced that that is yet the case with the Soviet Union. Perhaps it will be some day. As you know, Mr. Gorbachev is indicating he has in mind major plans for altering the Soviet economy; but, in that case, it seems to me seeing is believing, and we will cross the bridge of compatibility with the Soviet Union with the GATT when the time comes.

Mr. GUARINI. So that has been tabled, more or less?

Ambassador YEUTTER. That is correct.

Mr. GUARINI. Then, with regard to Mexico, they made an application which is being sped up, I understand, for their admittance to GATT.

Ambassador YEUTTER. Mexico is now in. Their membership was approved in late August 1986. So they will be a full-scale participant in the Uruguay round.

Mr. GUARINI. Lastly, let me ask you, the spirit of GATT—Japan and West Germany are major traders in the world. Can you comment on their level of cooperation in getting accomplished all these changes, which are massive and which have led to many disagreements with these countries?

Ambassador YEUTTER. Yes.

Well, as you know, we have had some differences of opinion with both those countries on monetary policy issues recently. Secretary Baker has had some comments on that point that have received widespread attention over the last couple of weeks. Federal Reserve Chairman Paul Volcker had comments yesterday that are covered in the press today.

There is not much more to be added on that subject. Everyone understands the differences of opinion that we have on that particular topic.

With respect to trade, the European Community speaks for all 12 nations of that entity in the Uruguay round, or on basic trade issues of any nature. So we deal only in a peripheral way with the Government of Germany or France or any other country on trade issues.

All of those countries were represented individually in Punta del Este, and we did work with them there. But, basically, it is the Community position as a whole which prevails on trade issues. Obviously, we have some major differences with the Community on a number of issues, particularly agriculture, but many others, as well.

We expect to work closely with them and negotiate effectively with them in the new round, and we will have synonymous positions on many issues in the Uruguay round.

The same is true with Japan. Japan worked closely with us in Punta del Este on a lot of these issues, and was very supportive of essentially everything we were doing in Punta del Este. At the same time, as you well know, we have a lot of very delicate bilateral disputes with the Government of Japan, and those will continue notwithstanding what happens in Geneva in the new GATT round.

We have a section 301 case on tobacco products coming to a conclusion in the next few days with our Japanese friends, and we have a good many other very difficult bilateral challenges in dealing with Japan, including the ramifications of a $70 billion bilateral trade deficit in that nation's almost $100 billion global trade surplus.

Mr. GUARINI. Thank you very much. And good luck to you.

Ambassador YEUTTER. Thank you.

Chairman GIBBONS. Mr. Crane.

Mr. CRANE. Thank you, Mr. Chairman.

Mr. Ambassador, I want to congratulate you on the outstanding job you are doing.

When Mr. Volcker was here yesterday, he was asked about the actions we are going to be taking today on the House floor, and I have argued from the beginning of the debate that this tax bill has a potential for impacting on our trade relations. And one of the areas of impact Mr. Volcker did address was changes with respect to foreign tax provisions.

Do you think in your assessment of—well, nobody has really read this document we are going to vote on today, nor will they, except for maybe staff. Do you think changes in the foreign tax provisions are going to negatively impact on our trade balance?

Ambassador YEUTTER. I haven't had a chance to digest those sufficiently, Mr. Crane, to really come to any conclusions. I doubt that anybody can speak with a high level of confidence on that subject. I would rather not engage in conjecture on that point.

Mr. CRANE. Let me give you another potential scenario that has been outlined. This is essentially a consumer-oriented tax bill with the shift of the $120 billion from individuals to business. There has already been talk by many economists that there may be a renewal of inflation.

On the one hand, if that dilutes the value of the dollar, it helps further in terms of making American goods cheaper in world markets and making foreign goods more expensive here. But the tradeoff that has some people concerned in the tax bill and its impact is putting more money into people's pockets in the short term, when you are simultaneously putting greater burdens on productivity at a time when industrial production has been going down anyway, could have the effect of further exacerbating our trade imbalance, notwithstanding the fluctuation in the value of the dollar on world markets with most of our partners.

What is your assessment?

Ambassador YEUTTER. Again, I really do not want to dodge your question, Mr. Crane, but obviously that is an enormously complex economic analysis where the answers are going to unfold once the new tax bill is implemented. And I suspect we could get 100 different estimates from 100 different economists on what might emerge in that regard.

I would answer it, Mr. Crane, by saying, assuming this tax bill becomes law, as most likely seems to be the case, with relatively few, if any, changes from the way it reads right now, what we will all need to do is monitor carefully the impacts it does have over the next year or two. And if some of the fears you are articulating become reality, we will need to make amendments.

That uncertainty is difficult for businessmen to handle, because we have been changing the tax legislation of this country every year, and American business finds it hard to adjust to an environment which appears to be so totally unpredictable.

At the same time, if changes are necessary, they ought to be made; and we clearly have a significant challenge—and this is reflected in your question, Mr. Crane—in generating the savings and investment that are necessary to provide for long-term growth of the American economy and begin to correct the trade deficit problem that we have today. And, if it turns out that the impact is not what is necessary to begin to correct some of this economic disequilibria, some additional changes are going to be necessary.

We are clearly short on savings today, and consumption obviously does not respond to the challenge of generating additional domestic savings in the United States. And I am concerned about investment levels. Investment levels have held up, by and large, pretty well during the economic recovery we have experienced over the last almost 4 years now. But the question is whether they will hold up in the future in our international competitiveness.

If we do a good job, Mr. Crane, of leveling the playing field, a task in which we are engaged with great enthusiasm, then we still must, on a level playing field, be able to compete with the rest of the world, and that requires capital investment and the development of technology, and research and development activities, and all the other good things that are essential to our international competitiveness.

So, as the U.S. Trade Representative, obviously I am concerned about all of that, and will have to watch it with great interest as the next 2 or 3 years unfold.

You are raising some red flags, and properly so. I have the very same concerns you have. It is probably much too late to make any significant alterations in the tax bill. And let's hope the tax bill turns out to be a plus in these areas as it works its way through the system.

But if that should happen not to be the case, we ought to make necessary adjustments in the future.

Mr. CRANE. I share your concerns about incentives for investment and savings; and, apparently, Americans, in their rush to consumption, have been dipping heavily into savings over the past several months.

But what you are saying suggests to me this is an inauspicious time to beat up on IRA's, 401(k)'s, to take the maximum capital gains rate, when we know every time we reduced it back in the Sixties, when it was 49 percent, it generated investment and increased revenues. And to eliminate things like dividend inclusions—those moves would be considered counterproductive in view of incentives to provide those investments.

There is another area of concern I have. One of the things that has been suggested by some economists as a means of encouraging greater incentives for countries, Third World countries especially, to increase their agricultural imports from the United States, is to write off big debts some of our banks in this country hold with some of those countries.

At the same time, we are proposing in this tax bill to eliminate the bad debt reserve deduction for all institutions that have over $500 million in assets, and this hammers about 2,500 to 3,000 of the big banks. FDIC reported that the number of troubled banks has already gone from 1,150 to over 1,400 since January. And Mr. Volcker and the President, through Treasury Secretary Baker, made an 11th-hour effort, successful effort, to bail out 20 of those banks that apparently they thought would go belly up if that provision of the Tax Code became implemented.

I just wonder how these banks are going to be in a position of writing off bad debt when they are getting hit by the bad debt deduction on the one hand, and the potential for eating a lot of money with the passive loss provisions in the code to individuals

who were in unprofitable investments. And many people are saying they are just going to walk away from them. And if they default, financial institutions are left holding that bag.

If that is not all bad enough, Edwin Gray was reported 2 years ago as saying he is anticipating 250 S&L's going belly up in the next 2 or 3 months.

Does that not suggest some unsettling and disquieting economic conditions, over the next couple of years, as we try to deal with our trade imbalance?

Ambassador YEUTTER. Clearly, Mr. Crane, we have major challenges in dealing with the debt burdens of a number of lesser developed countries, particularly some Latin countries. And those answers will not come easily, there are no simple answers. People are reaching for creative solutions, and there is clearly no consensus as to the best way to handle this.

I have had a lot of discussions with representatives of those countries in recent months, including some in Punta del Este. As you know, we have had some very adversarial discussions with Brazil on many of these issues, and a lot of friendly discussions with Mexico on comparable issues, and the same applies to some of the other countries.

I would make two or three comments. Speaking personally, not for the administration, because we have not cleared testimony from me on this point all this morning. I am not enamored with the recommendations of Senator Bradley and others that we have what is, in essence, a forced debt writeoff program. That might be a slight overstatement, but not much. If banks want to write off some of their foreign debt, it is certainly their privilege to do so, and whatever they ultimately work out with the bank regulators is fine with me. That is far beyond the purview of the Office of the U.S. Trade Representative.

But I do question the wisdom of any kind of forced write-off program, such as that promulgated by Senator Bradley in his recommendations. It seems to me that would likely cause a lot of consternation around the world that could come back to haunt us, and the countries who were the recipients of that show term benefit. To me, coming out of the business world and having dealt with the financial sector internationally out of my Chicago Exchange background, which you know well, I must say, giving a private sector view, I see that as having more problems than solutions.

But what else can one do in these circumstances? It does seem apparent to me, Congressman Crane, that those nations have to export. They can only service their debts if they are exporting more than they are importing. They have to have a trade surplus with somebody. This is a position that President Sarney articulated when he was here visiting Washington just a couple weeks ago, and it is accurate. Brazil has to run a trade surplus if it is going to properly service its debt, and so do a lot of other LDC's. Not all of that trade surplus has to be with us. There is an area we need a little help from some of our trading partners around the world, particularly from Japan.

What has happened, of course, is that the world is in disequilibrium in a whole lot of places, not only in the LDC's, because they are having difficulty servicing their debts because they can't move out

exports as vigorously as they like and they, therefore, have to cut off imports from Nations like us, but we are in disequilibrium at the same time, and that means there is a lot of other developed countries that have to pick up some of the obligation to help move the world toward greater equilibrium in this area.

It is a very complex question, but debt writeoff, it seems to me, is only a small aspect of it. We really need to look at it in terms of what we can do to generate additional economic growth or help generate additional economic growth in these countries and solve the problem by improved economic performance rather than through machinations of debt handling.

Mr. CRANE. When the President proposed the so-called subsidy grain sales to the Soviet Union, there were howls of anguish from some of my conservative friends, but my understanding is that debt subsidy, which I believe runs to about $13 a ton for wheat, is part of our agricultural program, and that still keeps our wheat about $10 above the world price for wheat, and the world price for wheat is at that level because the European Community is subsidizing theirs to the tune of $50 to $60 a ton. Are those figures fundamentally correct?

Ambassador YEUTTER. I would rather have the Department of Agriculture vouch for the numbers, Mr. Crane, but there is no question that the Community has consistently undersold us in all markets around the world through the use of their export subsidy programs. And I would add that I see no justification for howls of anger from any of our trading partners on that particular decision, because, as you know, it was limited to the amount of grain that the Soviet Union was obligated to buy from us in any case.

Mr. CRANE. If you will yield, Mr. Ambassador, their obligation, my understanding is, in the contract they have with us that we would make our grain available to them at the world price.

Ambassador YEUTTER. Yes.

Mr. CRANE. If thanks to what our European trading partners are doing, they have the world price another $10 below our $13 a ton subsidy already, the Russians I don't think are obliged to buy even at that subsidized rate, and frankly I think they would be stupid to do it. Do the Australians subsidize heavily their wheat production?

Ambassador YEUTTER. No; they do not. One of the legitimate complaints in this entire agricultural situation is from countries like Australia that are producer-free traders or something approximating producer-free traders, and they are caught up in this United States-European Community confrontation, which is not of their doing, and they do have a legitimate complaint.

But even there, one must be careful not to overreact because the quantitative obligations of the Soviet Union are clear in this regard, and they know full well that program was limited to the amount the Soviets are obligated to buy from the United States, and you are certainly accurate in saying that they are not obligated to buy from us at any price. If our prices do not come down to world price levels, it is unlikely the Soviets will make those purchases.

Mr. CRANE. Do you anticipate progress with the European Community in terms of getting them to back off of the magnitude of export subsidies for agricultural products?

Ambassador YEUTTER. I am cautiously hopeful. It will not come easily, Mr. Crane, because there are high levels of political sensitivity on agricultural policy questions everywhere, including here in the United States. So changing those policies in a dramatic way, which is what will be required in a successful Uruguay round negotiation, will be an immense challenge for all of us.

And I have some empathy for the Trade Minister of France and the Trade Minister of Germany in dealing with this kind of problem and for the European Community in attempting to negotiate. But the point is it has got to be done. We can no longer punt on this issue, which is what the world has been doing for the last 20 or 25 years. It makes no sense at all, we are all throwing billions of dollars into additional agricultural production which nobody around the world wants to buy. We have to have better sense than that, and we have got to be better stewards of taxpayers' dollars in the United States and in Western Europe, and it is bullet biting time.

We have to sit down in the next 2 years now, Mr. Crane, as you understand very well, and bite those bullets and get something done on agriculture. And we know it is going to come hard in Western Europe to change their system, it is going to come hard to change our system, but we ought to get everything on the table, and we ought to do it together. Because if we do it together, then it seems to me we can move the world toward a more free and open trading system in international trade, agricultural trade, whereby underlying competitiveness of farmers will determine trading patterns instead of the size of government treasuries.

Now, we have the situation reflected in the Soviet transaction you are talking about, where the competitiveness of farmers in the United States and elsewhere is totally lost in the process. Those kinds of decisions are being made by governments based upon how much money they are prepared to throw at an issue, and in no way reflecting the underlying economic fundamentals. It is a terrible way to run the world.

Mr. CRANE. Returning back to our tax bill, it would seem a bad time to eliminate the investment tax credit for farmers, raise capital gains taxes from 20 to 23 percent, deny him consumer interest deductions and so forth.

Let me quickly run through some questions that my good friend and colleague, Congresswoman Johnson, asked me to raise while you were here. As you know, she is keenly concerned with the status of the machine tool industry, and we have a lot out in the Chicago area, too. She noted in May 1986, the President sought to seek these voluntary restraint agreements with Japan, Taiwan, and Switzerland, and according to what she told me, that constitutes, I guess, about 70 percent of the imports from those four sources alone.

In her memo, she says import penetration has doubled since the industry filed a petition, a 232 petition in 1983, and the President set a 6-month deadline, and I think that is coming up the end of November for the achievement of 5-year VRA's. But the administration hasn't divulged the import targets it is seeking. Apparently what the industry wants is to go back to 1981 levels, and I think that was about 17.5 percent, which sounds a little unrealistic.

But can you give us any hint as to what the administration thinking is in terms of import targets?

Ambassador YEUTTER. This is a negotiation, so it doesn't seem to me that it contributes to the negotiating cause to articulate any of that publicly, because that simply provides some assistance to the people with whom we are negotiating. So I would rather not divulge anything publicly in the way of numbers or negotiating strategy.

Mr. CRANE. Can I tell her that target, though, end of November, probably will be met in terms of divulging what those targets may be?

Ambassador YEUTTER. We intend to meet that target date in terms of finishing negotiations completely. Those are well under way. This is being handled by USTR and Commerce as a joint endeavor. Congress is taking the lead in some, and we are taking the lead in others. The process is moving along very nicely.

Obviously, our negotiating partners are not enamored with the idea of negotiating VRA's at all in this area, but we have told them that decision has been made and is simply a question of deciding on what the numbers are going to be. And I really believe we will meet that timetable, Mr. Crane, and Congresswoman Johnson hopefully will be pleased with the final results.

Mr. CRANE. I thank you for your testimony. It is a delight to be with you.

Chairman GIBBONS. Mr. Ambassador, we thank you for coming here and helping us today. We look forward to close discussion on this.

Let me say one administrative thing before we break up. I hope, and I address this to our friends in the television and news media, that some other system of lighting this room can be found before we have another hearing like this. I have 20/15 vision, according to the physical exam I took last week, and excellent eyes. But your lights to my right-front have practically—I can hardly see the Ambassador's face from here. Some other solution has got to be found for lighting this room.

I thank you and hope you will take all of that into consideration.

Ambassador YEUTTER. Thank you, Mr. Chairman. It is nice to be here.

[Whereupon, at 11:30 a.m., the hearing was adjourned.]

[Submissions for the record follow:]

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Nicholas A. Veliotes
President

September 25, 1986

COMMITTEE ON WAYS AND MEANS
RECEIVED
SEP 26 1986

Mr. Joseph K. Dowley
Chief Counsel
Committee on Ways and Means
U.S. House of Representatives
1102 Longworth Building
Washington, D.C. 20515

Dear Mr. Dowley:

With reference to this morning's hearings before the Ways and Means Committee's Subcommittee on Trade, we echo Chairman Gibbons' praise of the superb work of Ambassador Clayton Yeutter and the other members of the U.S. delegation at the recent trade talks in Punta del Este.

This Association issued a statement on September 22 congratulating the U.S. negotiating team and expressing the pleasure of American book publishers at what was accomplished at Punta del Este. We ask that this statement be made part of the permanent hearing record, and enclose six copies for your use.

Sincerely,

N. A. Veliotes

Nicholas A. Veliotes

enclosure

Association of American Publishers, Inc.

2005 Massachusetts Avenue, N.W.
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FOR IMMEDIATE RELEASE
September 22, 1986: Washington, DC

Contact: Judith Platt
202/232-3335

PUBLISHERS HAIL COPYRIGHT INCLUSION IN TRADE TALKS

The Association of American Publishers today joined with other members of the copyright community in applauding the accomplishments of the U.S. negotiating team at the meeting of the General Agreement on Tariffs and Trade in Punta del Este, Uruguay. Calling their championship of the cause of intellectual property, "nothing less than heroic," AAP President Ambassador Nicholas Veliotes said that the decisions taken at Punta del Este "will be of immeasurable benefit in the fight for international copyright protection."

The Punta del Este meeting, which ended on September 20, was a ministerial-level preliminary negotiation to set an agenda for the eighth round of GATT talks, scheduled to open in Geneva at the end of October. The United States negotiating team headed by U.S. Trade Representative Ambassador Clayton Yeutter insisted that the forthcoming round of talks include, for the first time, the need to promote adequate and effective protection of intellectual property rights, including patents, trademarks and copyrights. Inclusion of intellectual property rights within the scope of the GATT (which has heretofore covered only manufactured goods), had been strenuously opposed by several developing countries. (The U.S. advocated, and obtained, inclusion of services, investments, and agricultural subsidies in the new round as well).

AAP, as a member of the International Intellectual Property Alliance, had written to Ambassador Yeutter prior to his departure for Punta del Este, stating: "The subject of intellectual property is so central to contemporary international business activities, and the GATT so important an institution, that this topic must be accorded the highest priority on the international trade agenda."

The General Agreement on Tariffs and Trade, with more than 90 member nations, was set up following World War II to promote free trade and reduce trade barriers. As a direct result of U.S. efforts, the ministerial declaration issued in Punta del Este said, in part: "In order to reduce the distortions and impediments to international trade and taking into account the need to promote effective and adequate protection of intellectual property rights and to insure that measures and procedures to enforce intellectual property rights do not themselves become barriers to legitimate trade, the negotiations shall aim to clarify GATT provisions and elaborate as appropriate new principles and disciplines."

"We are more than grateful to Ambassador Yeutter, Secretary of Commerce Malcolm Baldrige, and the other members of the U.S. delegation, for their skill and diplomacy, their faith in the cause of intellectual property protection, and their steadfast defense of it," Ambassador Veliotes said.

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September 24, 1986

The Honorable Sam M. Gibbons
Committee on Ways and Means
U.S. House of Representatives
1102 Longworth House Office Bldg.
Washington, D.C. 20515

Honorable Sam Gibbons:

Re: Upcoming Ministerial Level Meeting on GATT

Today we're hearing much enthusiasm that the upcoming new round of GATT talks will result in an improved GATT that will in turn, help to corect our serious trade deficit. I contend that it is imperative that we attend the GATT meetings with a tacit goal of achieving a negotiated GATT advantage for our country.

If we are to achieve any resemblance of fair trade following the GATT negotiations the U.S. seriously needs a GATT advantage that would compensate for the Asian countrie's low-cost labor advantage. To understand the importance of this we need to examine the very significant impact of labor costs on the selling price of a product. Many businessmen and economists mistakenly think that labor costs appear only as the labor cost at the company doing the final assembly of a product. To actually understand the effect of labor cost on a product we need to mentally trace the flow and destination of all dollars received by the company building the final product.

The dollars received by a company are basically paid out to four groups:

1) People working at factory (labor)
2) Dividends & retained earnings to investors (profit)
3) Payments to government (taxes) and (insurance)
4) Payments to suppliers of materials, parts, services, utilities, mortgage, etc.

If we look more carefully at item (4), we find that the management of all these businesses receiving our payments also very carefully pay out these dollars to the same groups 1), 2), and 3). Thus we can say that the cost of any product is the money paid for:

1. Labor
2. Profit
3. Taxes and insurance

I think we can all agree that businesses never stand out on the street corner handing money out to passers by. Money is only paid out (cost) for labor, profit, taxes and insurance. Total profit plus taxes and insurance for a business generally run 10% to 20% of sales, thus labor represents perhaps up to 70% of the cost of any product, if we assume the three stage manufacturing process.

With labor costs being such a predominant factor of product cost we can begin to see the difficulty for U.S. manufacturers to compete with Asian manufacturers having 1/8 to 1/10 of the U.S. labor costs.

It is obvious that although a "fair and equitable" GATT agreement may sound good on the surface, it could not function as a trade equalizing force on our behalf. A "fair and equitable" GATT agreement (undoubtedly happily signed by our foreign competitors) would only perpetuate for another agreed period the tremendous competitive Asian advantage of low-cost labor.

It is imperative that we realize that a new GATT agreement must be biased enough in our favor as to effectively give the U.S. a GATT advantage adequate to offset the Asian low-cost labor advantage. Without a well understood commitment for achieving a negotiated GATT advantage we will be destined to witness an ever increasing U.S. trade deficit!

Our only other choice, and actually a better choice, is to unilaterally pass U.S. trade legislation (see page 14 & 15 of enclosed booklett) that will actually create a environment of fair competition in the U.S. market.

Yours truly,

John V. Westberg
President

JVW/rk

Structuring a New Order for Trade in the World Arena

Introduction
John V. Westberg

Dealing with the International Trade Crisis
Dr. John M. Culbertson

International Trade Competition—Can It Be Fair...?
John V. Westberg

About the Authors:

Dr. John Culbertson is a Professor of Economics at the University of Wisconsin, Madison. He is a consultant to the Federal Reserve Bank of St. Louis and the Sub-Committee on International Finance of the House Banking and Currency sub-committee, and author of *International Trade and the Future of the West.* His paper, *Dealing with the International Trade Crisis,* was delivered at a U.S.I.C. Educational Foundation Seminar in Washington, D.C., November, 1985. It is used in this booklet with the permission of Dr. Culbertson and the U.S.I.C. Educational Foundation. The views expressed are not intended to represent the position of the U.S.I.C. Educational Foundation.

John V. Westberg recieved a B.S. Degree in mechanical engineering in 1961 from Northwestern University, Evanston, Illinois. He is a member of the Society of Automotive Engineers (SAE), the Illinois Manufacturing Association (IMA), the IMA Small Manufacturers Action Council, the IMA Foreign Trade Committee, the National Association of Manufacturers (NAM), and he serves on the NAM Foreign Trade Committee. He is currently president of Auto Meter Products, Inc., a manufacturer of automotive aftermarket instruments. Even with the recent downturn of business for many U.S. manufacturers, Auto Meter has been able to achieve a growing sales success.

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Introduction

As a nation, we need to do a better job of thinking through the trade deficit problem. It seems that so often we find people in leadership positions trying to find new words to explain and justify our old free trade position. This kind of updated rhetoric does much to pacify public debate on the trade issue. Upon more thorough examination, however, it can be seen as nothing more than shallow, wishful thinking based on the world economic condition thirty years or more ago.

Then we enjoyed a position of competitive strength in the world market as evidenced by our trade surplus. As the years have progressed, we have lost our competitive advantage and have fallen into a position of significant disadvantage. This continual downslide in trade was inevitable as many nations gained our technical know-how while maintaining their low labor costs. Because many foreign engineers are educated at U.S. universities, and our technical professional associations often are aggressively working to share all of our technical expertise, our trade disadvantage will continue until such time that foreign nations' wages and living standards rise to the U.S. level, or, more likely, we fall to theirs.

The relative deterioration in our competitive position is a real fact of life that we seem not to want to face. Our ever-worsening trade deficit drives home to us the realities of the 1980s but we refuse to listen.

Let's look at the three possible conditions of foreign trade and the associated impact of each trade condition on U.S. jobs.

1. **Trade Surplus**— In this case the U.S. would have an overall gain in jobs from foreign trade because we would be exporting more goods than would be imported.
2. **Balanced Trade**— A desired goal but in this case there would be no gain or loss in jobs. Increasing the magnitude of foreign trade while maintaining balanced trade would do nothing to increase jobs in the U.S.
3. **Deficit Trade**- As we export less than we import (deficit trade), it is obvious that the net effect is a loss of jobs. At first thought the solution might appear to be to export more so we can achieve either *balanced* trade or more desirably trade *surplus*. How realistic is the idea? Naturally with greater sales efforts we ought to be selling more exports. But could we ever sell enough to offset our gigantic trade deficit? When one considers the fact that if we can't beat the foreign competition in our own home market, how can we ever beat them in overseas sales where our products would carry an additional cost burden of ocean freight and any other applicable tariffs or duty?

Anyone willing to openmindedly look at this question will have to agree that we cannot expect to achieve any significant extra sales overseas until we can beat the foreign competition in our home market. Once we can beat the foreign competition in our home market, we will be well on our way back to balanced trade and eventually on to a trade surplus.

Obviously the big question is how can we beat the foreign competition in our own home market. To do this we would need to lower our manufacturing costs below the foreign manufacturers' costs through some combination of 1) lower wages, 2) superior productivity or 3) superior automation. What are the possibilities of our achieving this superior low-cost combination? Let's consider each of these three cost reduction factors.

1. To reduce U.S. labor costs below labor costs of foreign nations, such as Taiwan or South Korea, would require wage reductions of about 90 percent (wages equal to only 10 percent of today's wages). This would be close to impossible to achieve. Wages will not contribute to a competitive advantage until they are dropped below the competitive foreign wages.
2. In recent years we have studied the many management techniques used overseas to achieve highly productive workers. One factor contributing to employee motivation in Taiwan is that the workers do not have any government paid unemployment benefits when they lose their jobs. This, and other factors, make it difficult for each U.S. employee to achieve more productive work than their Asian counterparts.
3. Automation, especially robotics, is an excellent way to reduce labor costs. One problem, however, is the sizeable costs involved in purchasing and installing such systems. After examining 1) and 2) above, it is apparent that our only hope to gain a competitive advantage lies in automation. We read today of many U.S. businesses boasting how they will achieve the competitive advantage through superior automation. Of course, this automation will have to be extra effective to offset the wages and productivity advantage enjoyed by the foreign competitor.

The big problem comes in trying to finance this superior automation. These same robotics are available to the foreign competitor, who also is enjoying a much higher profit margin on current sales. This higher profit margin gives the foreign manufacturer more capital to invest in automation. How are we going to achieve our needed superior automation when we have so much less capital to spend on it?

Dr. John Culbertson, a professor of economics and an author on the subject of international trade, addresses the problem of our world trade crisis. In his article, *Dealing with the International Trade Crisis*, he writes:

"Replacing delusions with realistic understanding is the key to

replacing the destructive patterns of international trade that now prevail with a new structure of trade that will promote economic progress."

It's going to take a lot more than our current wishful thinking to reverse our country's trade deficit problem. It will take a realistic restructuring of the world arena of manufacturing competition. Following Dr. Culbertson's article, I have submitted a solution to the trade deficit problem. As a nation, we need to look beyond the misleading connotations of "free trade" and rationally accept a plan that will allow manufacturers in each nation to function within a given portion of their domestic market on a fair level of competition. The portion of each nation's domestic market beyond this would be open to competition from manufacturers of all nations. Our goal must be to form an international trade structure that will allow manufacturers of highly developed nations to assist manufacturers in developing countries without the fear of being put out of business by their lower labor costs as their products enter the U.S. market competition.

— John V. Westberg

Dealing with the International Trade Crisis

John M. Culbertson

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The economic plight of the United States is a part of a unique international trade crisis. Great shifts in the pattern of international trade are deindustrializing the United States and Europe, undercutting their economies and standards of living. The situation of the world ten years further down this road is frightening to contemplate.

This situation has developed because the United States and other Western countries have based their policies on a fundamentally erroneous theory of how international trade works. U.S. trade policies are based on the doctrine that unregulated private trade across national boundaries—misleadingly labeled "free trade"—is automatically self-regulating and beneficial to the nations involved. This false doctrine has caused the United States to invite, indeed, actively to pursue, its economic decline. For, in truth, unregulated private trade across national boundaries works to undercut the wage level and the standard of living of high-income nations. The particular circumstances of today's world make the threat not a mere theoretical one but a threat of ominous reality.

Hope for the future lies in the United States and other hitherto unrealistic nations giving up their delusions about "free trade" and adopting a realistic, a scientific, analysis of the effects of international trade in today's world. Only on the basis of such an accurate understanding of the workings of international trade and the effects of trade policies can arrangements be made for international trade that actually works to benefit the nations involved. Replacing delusions with realistic understanding is the key to replacing the destructive patterns of international trade that now prevail with a new structure of trade that will promote economic progress.

Many people assume that the automatically beneficial character of "free trade" has been decisively demonstrated by economics. This is not at all true. On investigation, this faith in "free trade" proves to be impossible to justify, and inconsistent with the evidence. The "free trade" doctrine presents a basically false picture of the actual effects of international trade in today's world.

It is not widely realized that to claim unregulated international trade to be automatically beneficial requires asserting that international trade and international competition work basically differently than other trade and other competition, asserting that they compromise a unique exception to the general laws of economics. For when international trade is analyzed in terms of the regular concepts and tools of economics, the conclusion is that unregulated private trade across national boundaries is ordinarily a damaging, and potentially a ruinous, arrangement, and a carefully designed framework of trade policies is required to permit foreign trade to be a constructive force.

Let us develop this point by considering Ricardo's famous example of a century and a half ago. An England with a high standard of living and a high wage rate opens trade with a Portugal that has a low standard of living and a low wage rate, but whose people are industrious and efficient. What are the effects?

Opening trade throws into competition peoples that had been noncompeting groups. Now that they are competing groups, "the law of one price" applies across the two nations. Low-priced goods undersell high-priced goods. Low-wage labor undersells high-wage labor. Goods made with low-wage labor undersells goods made with high-wage labor.

Thus, high-wage English production is undersold by low-wage Portuguese production. Production shifts from England to Portugal. Industries and jobs shift from England to Portugal. England now has a great trade deficit. Its trade deficit is the counterpart of its loss of its industries and jobs. On the other hand, Portugal has a trade surplus and is taking over English industries and jobs. England's loss is Portugal's gain.

Thus, wage rates increase in Portugal and decline in England. To bring England's trade back into balance and to put English workers back to work finally requires a reduction in English wage rates and the English standard of living to equality with those of Portugal. On the face of things, this trade was very beneficial to Portugal, and very damaging to England.

Just how damaging the opening of "free trade" is to England depends on the relative sizes of the two nations and the difference between their initial living standards. If the example involved not Ricardo's Portugal, but, say, Asia, with standard of living much lower than that of England and a population enormously larger, the decline in the English standard of living occasioned by the international trade would be very great. To suffer so great and so rapid a decline in its standard of living commonly would throw a nation into political irrationality or disorder.

Yet worse, if the area with which England is economically merged by unregulated private trade has a persistently high birth rate, the resulting population growth will in the long run force the equalized wage rate and standard of living down to a very low level, to a minimum-subsistence level. Population growth unquestionably has the power to dominate all other factors and reduce people to poverty. In this event, the trade-imposed economic integration of the nations subjects England to an economic ruin imposed on it from outside, to which it would not have been subject had it not entered into "free trade" and international economic integration but had retained its economic independence.

A large decline in living standards has a chain of further effects. It eliminates the demand for the kind of goods that are produced by advanced technology. It also destroys the ability of societies to carry the overhead costs and the organizational demands of reseach and high technical expertise required for advanced technology. Advanced technology and knowledge are irrelevant to an impoverished world. The nations thus go downhill in their achieve-

ments and capabilities, moving backward down the road up which they once had advanced—as so many declining societies have done in the past.

Moreover, unregulated trade across national boundaries causes a number of kinds of destructive or degenerative competition. Just as low wages undercut high wages, lax environmental-protection laws undercut rigorous ones, lax worker-protection regulations undercut stringent ones, subsidized output undersells unsubsidized output, and so on. Each nation comes under inexorable pressure to gain or to retain jobs and incomes for its people by cutting costs and prices. Rules to maintain civilized human conditions and to protect the future become a luxury that no longer can be afforded.

It is often assumed that for goods to be cheaper shows that they were produced more "efficiently," that cheapness implies efficiency." But that is true only when the goods are produced under the same circumstances and rules—and under rules that conform to social values. Unregulated international trade throws into competition goods produced under very different rules and circumstances. Thus, in such international trade, "the price system" works perversely. It does not cause economic efficiency. It causes low wages to undercut high wages, low production standards to undercut high production standards, and neglect of the future to undercut protection of the future.

In another clarification of the meaning "efficiency," shifting production from a high-wage nation to low-wage foreign labor cuts costs, but does not increase "efficiency." It must be remembered that labor is not only an economic input, whose cost is to be minimized. Labor also is people, whose standard of living is determined by their wage level. The goal of economic policies and institutions is to raise living standards, not to lower them. Unregulated international trade—making the world a great population commune—is a system whose expected outcome is to make people cheap, to reduce the one-world standard of living to the lowest possible level.

It often is not recognized that in equalizing wage rates and throwing the peoples of different countries into competition for jobs and incomes, "free trade" has basically the same effect as "free immigration." If it would not be reasonable, say, for the United States to propose "free migration" or unlimited immigration from China, India, Bangladesh, it cannot be reasonable for it to enter into "free trade" with them. An excess of imports from low-wage nations has the same effects as would an unbalanced flow of people from them. American wage rates can be forced down either by low-wage foreign workers moving here and taking the jobs of American workers, or by the factories and jobs moving to them.

This is the picture that emerges from a straightforward application of economic analysis to international trade. Except in very special circumstances, unregulated private trade across national boundaries is destructive. Recent events fit perfectly with this interpretation. International trade is far out of balance. Industries and jobs are shifting from high-wage to low-wage regions. Some Asian nations are enjoying an extraordinary rise in jobs and living stan-

dards, and what they are gaining, the United States and the West are losing.

In Asia, people are moving up to better-paid jobs in more rewarding industries; in the United States and Europe, they are moving down to lower-paid jobs in second-rate industries, or are remaining unemployed. This is precisely the expected "adjustment process" by which living standards of Western nations are beginning their decline, a decline that is taking the United States and the West toward an outcome that is far from what its peoples are expecting. Thus, the highly touted "export-led growth" of these Asian nations is not a potential means of raising the living standards of all nations. It is, rather, a parasitic process by which industries and jobs are shifted from higher-income to lower-income nations.

If this is how economic analysis says international trade works, where does that story that "free trade" is automatically beneficial and the best possible policy come from? It rests on the assertion that international trade, trade that crosses a national boundary, works basically differently than other trade. International trade is asserted to be quite unaffected by differences in national wage rates and productions costs, so that low-wage nations would not undercut the production and the standard of living of high-wage nations.

Recent events show that this is not true. American industries are failing because their output is being undersold by foreign goods. American industries and jobs are shifting to countries where labor costs are low. No one familiar with the recent epoch-making shifts in industries and jobs could say that they have not depended on differences in national cost levels.

The erroneous assertion that international trade is unaffected by differences in national wage and cost levels is created by deducing a supposedly universal "principle" from an atypical case, essentially from a hypothetical case of *barter trade between nations*. In the case of barter trade, or trade that is forced to be in balance, a low-wage nation cannot undersell the output of the other nation, run a trade surplus, and pull away its industries and jobs—because with balanced trade it cannot export more than it imports. Thus, "the principle of comparative advantage" actually does not apply to international trade, as such. What it applies to is barter trade, or trade that is required to be in balance. The assertion that international trade has a unique self-regulating and automatically beneficial character that sets it apart from other trade is an error.

"Free trade," of course, is not ordinarily in balance. Thus, it is governed by absolute costs and prices. In "free trade," low-wage labor undercuts high-wage labor. The enormous trade deficit of the United States largely reflects such cost differentials, and the "deindustrialization of America" that they are causing.

Thus, there is no basis whatever for asserting that "free trade" increases economic efficiency. Much, probably most, present-day trade is based on national cost differentials that do not reflect efficiency. Much of this trade is destructive wage-cutting trade, not efficiency-enhancing trade. The prevalent assertion that under "free trade" the trade that exists must increase economic efficiency, or else it would not occur, can in no way be justified.

Junking the fallacious story that "free trade" depends on comparative advantage and is automatically beneficial leads to a coherent and realistic understanding of the dramatic recent economic rise of some nations and decline of others, caused by shifting patterns of trade. Interpreting recent shifts in foreign trade and the international location of industries in terms of straightforward economic analysis explains everything that is going on, the great imbalance in trade, the extraordinary shifts of industries and jobs between nations, the "deindustrialization" of the United States and Europe and the rapid industrialization of certain Asian countries. It also discloses the dismal destination toward which this process is headed.

Thus, the so-called "free trade" is a false goal for policy. It has not been, of course, the goal of Japan or other nations that have recently risen—or of the rising and successful nations of the past.

The constructive goal with which to replace the false goal of "free trade and world-wide economic integration" is balanced, mutually beneficial trade between nations, nations that preserve their independence, their sovereignty, and their ability to shape their own economic destinies." "Balanced, mutually advantageous trade between nations" is the valid goal that must replace the false goal of "free trade."

To effectuate this goal, nations in different circumstances and with different political capabilities will use different kinds of actions. The widely felt need of many nations to move toward balance in their trade has been reflected in the rapid rise of practices of countertrade, or requirements of the form, "to sell X to us, you must buy Y from us."

The arrangement that would permit the fullest development of balanced international trade that actually is efficiency enhancing and actually is based on comparative advantage is long-term trade pacts between governments that would work out patterns of trade beneficial to both of the nations.

For the United States, whose giant market makes it the target of an exploding volume of exports of low-wage nations, the first step is to impose restrictions on imports and move imports down to balance with its exports. Some further reduction in the international value of the dollar may be desirable. But those who propose to balance U.S. trade entirely by reductions in the value of the dollar seem to forget that such reductions in the dollar is not a way of balancing U.S. trade without reducing the nation's standard of living. It is the way of balancing U.S. trade *by reducing the U.S. standard of living.* And reducing our standard of living to the level that would balance our trade with Asia would bring a revolutionary change in the shape of the world, and is not at all what the people of the United States have in mind for their future.

It is difficult to have a reasonable discussion of limiting imports because of the popular habituation to the propagandistic negative stereotype of "protectionism." But in a realistic view of international trade, a high-income nation with the world's largest and most attractive market must expect as a normal thing to impose restrictions on its imports in order to balance its trade while preserving its high standard of living. For the United States to balance its trade by reducing its standard of living to a level that make it "competitive"

with the world's overpopulated nations would be self-destructive, and in the long run damaging to mankind in general.

To move the United States and the world toward a pattern of international trade that is mutually beneficial to the nations involved and that raises nations up rather than pulling high-income nations down is a great challenge. It is an immediate and critical challenge. Events are moving rapidly. Europe cannot for much longer sit with its 13 percent unemployment and its absence of jobs and hopes for youth. The United States cannot long continue closing down its major industries, running a huge trade deficit and building up an unprecedented foreign debt, while trying to support its growing population and its heavy-overhead way of life on minor and secondary industries. Great troubles are near at hand. The only basis for dealing with the situation seems to be the replacement of the fallacious and unrealistic view of international trade that recently has governed United States policy by a view that deals with the world as it is.

International Trade Competition— Can It Be Fair...?

John V. Westberg

The industrialized world is now on the threshold of the most significant and far-reaching changes that have occurred since the industrial revolution began. These changes are being brought about by "flexible manufacturing" or robotics. In order to enable the U.S. to invest in robotics as needed as fast as other manufacturers do around the world and to remain competitive in the world market, it is imperative that American business maintain a healthy financial condition. It has been stated that America's plants and equipment have become old and obsolete in recent years. This must be turned around. American business must be allowed to become financially strong again so that it can generate the tremendous profit reserves that will be required for robotic modernization.

One must realize that American business today is struggling for survival. We see evidence of serious economic problems when such stalwarts of American business as steel and autos find their only way to survive is to join with Japanese business.

Why has American business become weakened? One of the principal reasons has been the ever-increasing competition from foreign manufacturers who have low labor costs and modern technology. The simplistic notion that "free international trade" is good for the nation has allowed these manufacturers to put a tremendous cost/profit squeeze on American business.

Although it is an avid promoter of free trade market, America apparently does not understand how the free market functions. It is the simple, straightforward functioning of the free market system that has allowed foreign manufacturers to weaken American industry.

The free market system itself is not at fault, for it functioned superbly over the years in the building of America. The problem has occurred since foreign manufacturers, having tremendous labor cost advantages, have been allowed to compete freely with American business. This decidedly unequal competition naturally produces unequal results.

To understand this economic trade problem, one must take a closer look at how the free market functions and at competition—what it is and how it works.

In a free market the consumer is king. The consumer is free to choose the particular mix of product, design, performance, quality, cost and service that best meets his or her needs and wants. Manufacturers, warehouses and retailers are free to try to meet these needs and wants of the consumer.

When a consumer decides to buy a product, one of the most important considerations is cost. Very likely a consumer will reason that he or she has only a certain amount of money available to spend on a product and then the consumer seeks to buy the best design, performance and quality for that given amount of money. Because product cost is so important, it is easy to understand how the foreign competitor can have a sizable advantage. Low costs, combined with equal product design, performance and quality, give the foreign manufacturer an almost unbeatable advantage. The following brief analysis shows the momentous impact of low labor costs on the selling price of products.

Generally manufacturing labor costs (direct, indirect, sales, management, engineering, etc.) average approximately 25 percent of the selling price. Taxes and profit each average about 8 percent of the selling price.

typical labor=	25% of selling price
typical profit=	8% of selling price
typical taxes=	8% of selling price
value added=	41% of selling price

The remaining 59 percent of the selling price consists of payments to others for facilities, equipment, materials and/or services. Although it may appear that this 59 percent relegates labor to a minor impact on costs, it must be remembered that these payments made to others are to cover the supplier's expenses for "labor, profit and taxes." When all manufacturing costs are traced back to the recipients of the money paid for a product, we find it is only people who get the money: 1) people who did the work (labor), 2) people who invested in the factory (profit) and 3) government (people who collect a share of all profits to be spent for our common good). Thus, labor is the largest factor in determining manufacturing costs. Labor has three to five times more impact on cost than does profit or taxes.

Competition

What is it? The struggle to be better than another person or group seeking after the same goal.

Is it good? Yes. It encourages progress because it causes people to work extra hard to win a game or produce a better product at a lower price in order to survive.

Should there be restrictions on who can compete with whom? Yes. To benefit from competition, all those involved must perceive and actually have an equal opportunity at winning. High school, college and professional football each play in their own leagues among relative equals and there are exciting games at all levels. If, however, a high school team were required to play a pro team, there would be all kinds of protests that this was not fair competition. Thus, it is apparent that certain basic factors have to be identified and then used as criteria for grouping competitors fairly.

In business, as in sports, there are some general factors involved in determining the basic ability of one company to compete against another. In football each team chooses its own plays, strategies, air/ground offense balance, etc.; in business each company makes decisions on marketing, R & D, policy, manufacturing methods, capital investment, etc. These decisions determine the cost/quality/performance value of the products produced by a company. These products are then distributed to the market place to compete with other companies' products for the consumers' dollar. This all

sounds like fair and healthy competition. However, without proper grouping of competitors, a business can find itself in a situation similar to that of a high school team playing a professional team.

There is an underlying factor which is of major significance to competition. This major factor is labor cost. According to the *Wall Street Journal*, U.S. labor costs are eight to ten times higher than in such countries as Taiwan and South Korea. One can begin to see that competition between U.S. manufacturers and Asian manufacturers cannot possibly be fair.

Years ago U.S. companies had offsetting advantages of better engineering and toolmaking know-how, plants and machinery. Today these advantages have disappeared as Asian manufacturers have invested heavily in these areas.

It is often thought that the U.S. still has the advantage in marketing know-how. This is no longer the case because Asian companies now are hiring Americans to do their marketing.

Today, as one compares many American businesses with their Asian competition, one finds the American companies often struggling to hold their market share or even to stay in business. The U.S. company often reduces R & D and curtails investment in new plants and equipment to help lower costs.

Because labor costs are vastly lower in Asia and because the U.S. consumer now perceives Asian products to be of equal or greater quality and performance, the stage is set for high profit margins for the Asian companies. These high profits are then reinvested in far more engineering, new plants and machinery, making these Asian companies formidable competitors. U.S. competitors (paying the high U.S. wages) cannot begin to spend the same money for these important future-affecting investments. Each year that goes by witnesses the cumulative building of Asian business strength while U.S. business is rapidly declining.

The desperate response of U.S. manufacturers to this situation appears to the economically uninformed to be the first evidence of competition U.S. business has ever faced. Thus, it is felt that to take away foreign competition would eliminate competition among U.S. business and breed stagnation. In reality, however, U.S. manufacturers have faced fair and stiff competition from other U.S. manufacturers for a great many years. The following list shows ways in which U.S. companies compete, even without entry of foreign products into the U.S. market.

1. Competition for the best employees (must pay a competitive wage plus benefits program).
2. Competition for good delivery and iow prices from suppliers.
3. Competition in product design, performance, and cost (need best design and performance with lowest cost).
4. Competition in most effective methods of production and quality control.

5. Competition for fastest delivery to customers with fewest backorders.
6. Competition for best and most cost-effective marketing, advertising and promotional programs.
7. Competition for best sales and service programs.
8. Competition for consumer dollars, not only with businesses making similar products, but with all other types of products and services on which people spend their money.

It is only as a business struggles to be best in all of the above areas of competition that it can have any real chance for long-term survival and growth. In each of these areas of competition, any company can make mistakes. This opens the door for another company (even a new start) to take business away from the existing company. This competition is very healthy and good for the U.S. consumer and American business.

Over the years, this competition within our free-enterprise system has helped the U.S. become the number one economic power in the world. In the days of fair competition, U.S. industry was economically healthy and growing. In the past twenty years, however, Asian manufacturers with their low labor costs and modern technology have been unwisely allowed to compete "heads up" with U.S. manufacturers. Many U.S. businesses are now having to "run for their lives." Many observers, with their limited knowledge of business, could not even see these eight types of healthy business competition occurring among U.S. businesses prior to the entry of Asian competition. Now, only with the entry of unfair Asian competition, can these observers begin to see U.S. business struggling to compete.

The "can do" competitive spirit of many businessmen in the face of this difficult situation today says U.S. business can still beat foreign competition. Products will have to be redesigned to use fewer parts and to be assembled much more easily in order to greatly reduce labor costs. More efficient material control and design support equipment along with the use of robotics will further reduce labor costs. This is all essential to stay competitive. However, Asian manufacturing can copy all these ideas and automate to the same extent, and they will still have the advantage through much lower labor costs.

If one feels it is paranoid to credit the Asians with the ability to copy all the improvements U.S. business makes, one should remember the many information-sharing professional societies, such as the Society of Automotive Engineers, in the U.S. These professional groups often pride themselves today by initiating promotional campaigns to become "international" in scope and membership. U.S. manufacturers' only real competitive advantage has to lie in having better ideas and designs. Yet, the U.S. manufacturers seem so willing to unwisely give away their advantage through international sharing of our ideas. While the U.S. is giving away its advantages, the low labor costs enjoyed by Asian manufacturers cannot be given away to U.S. business. This is basically a "heads" we lose, "tails" they win situation.

Competition between American businesses could still work today to return our industries to sound financial and competitive health, but not when the unfair competition of Asian manufacturers is allowed in our U.S. manufacturing arena of competition. (See Figures 1 and 2 for a graphic presentation of this problem and a proposed solution.)

Investment in business carries with it both the opportunity to succeed and the potential to fail. Normally fair competition in the free market will allow business to make only enough profit to justify the gain/risk involved. Any attempt to make extra profit would only encourage additional competition from other manufacturers. This is the basic manner in which fair competition permits and limits profits to between five and ten percent of a product's selling price.

When Asian manufacturers enter the U.S. arena of competition, they have a decidedly unfair advantage to earn unusually high profits because of their low costs. What is needed is a legal mechanism that would force the Asian manufacturers back down to the same reasonable profit that exists with fair competition between equal competitors. While the Asian manufacturers' profits are being reduced to reasonable levels by lowering their selling price, the retail price of their products would have to be comparable to the price of competing U.S.-made products. In this way fair and healthy competition between all entrants in the U.S. arena of manufacturing competition could begin.

How can each Asian manufacturer be forced to lower the selling price of his products to yield the standard five or ten percent profit while keeping the actual market price high enough to allow fair competition among U.S. companies?

One way is to impose a tariff. This method may place a restriction on the growth of foreign imports, but it would be almost impossible to determine the exact fair tariff rate for each country and product category to meet the profit/selling-price/ market-price spread previously described. Certainly we cannot depend on the loud complaints of the Asian competitors to determine when a U.S. tariff was large enough to push them down to normal profit margins.

Solution

The most effective way to achieve fair and precise control of the profit/selling-price/market-price spread for foreign manufacturers in the U.S. market is through a proper grouping of manufacturers into fair arenas of competition. It is just like the need to establish the different leagues for grouping football teams into high school, college and pro leagues. What needs to be done is to remove the foreign manufacturers from the U.S. arena of manufacturing competition. Then, as foreign manufacturers compete only among themselves for the U.S. market, fair competition would drive their currently excessive profits down to the normal levels of five to ten percent. Then U.S. manufacturing could become healthy again as U.S. industries compete fairly among themselves.

The big question is how can foreign manufacturers be removed from direct competition with U.S. manufacturers without removing the foreign products from the shelves of U.S. retail stores. Amer-

icans have grown accustomed to a certain percentage of foreign products in their field of purchase choices. This choice should be maintained for the consumer. Also, foreign manufacturers should be allowed to continue with their current market share, which they have earned.

There is a way that all of the preceeding "fair competition," "customer choice," and "foreign manufacturer access to U.S. market" requirements can be achieved. This would require the U.S. government to pass an import control bill. This two-part bill would essentially state that:

A. All imports from countries with which the U.S. cannot compete because of low labor costs and modern technology would enter the U.S. market only through a U.S. manufacturer of that product. Thus, Ford, GM and Chrysler could import complete cars because they manufacture cars. But if Ford, GM or Chrysler wanted Japanese steel, they would have to contact a U.S. steel manufacturer who would bring in the Japanese steel.

B. These imports would be limited to a percentage of each importing company's annual sales equal to the current foreign penetration of the U.S. market for the product category.

The very essence of this bill would automatically and fairly push the foreign manufacturers back down to normal profit levels as they lowered their selling price because they competed fairly among themselves to sell to the U.S. manufacturers.

Every U.S. industry that is presently being hurt by foreign competition automatically would be included in this endeavor to make competition fair. They also would have a chance to be involved at least in a small financial way in the flow of products from the foreign manufacturer to the U.S. consumer. A good example of this is Chrysler Corporation. They import cars designed and built in Japan by Mitsubishi. The fact that these cars flow through Chrysler does not increase the cost to the U.S. consumer. These cars sold by Chrysler cost the U.S. consumer no more than an equivalent car from Toyota or Datsun. The important difference is that Chrysler told Mitsubishi that because of Chrysler's related expenses to engineering, parts, service training, warranty, etc., Mitsubishi would have to sell to Chrysler for a lot less than Toyota would sell the corresponding car to their dealer. Of course, this was not too hard to do since the Japanese car manufacturers, because of their low labor costs, are making an extra $2500 profit per vehicle over the U.S. manufacturer. What Chrysler accomplished was to reduce Mitsubishi's excessive profit and to allow Chrysler to get in on some of the financial action—and all this at no cost penalty to the U.S. consumer.

Many U.S companies are importing at least a portion of their low-priced segment to their product line. Low-priced Asian products will continue to be available to the U.S. consumers who have a significant interest in low prices.

The second part of the proposed import bill deals with controlling the maximum percentage that could be imported by a manufacturer. The balance would then have to be manufactured in the U.S. If we assume that the U.S. consumer and the Asian manufacturers would

like to maintain Asian imports at current market penetration levels, and U.S. manufacturers would not want to lose anymore market share, then a restriction could be added so that U.S. manufacturers could only import Asian products up to a maximum percentage of their total annual sales equal to the current Asian penetration of the U.S. market. Thus, Ford, GM, and Chrysler could import up to 25 percent of their total annual sales because Asian manufacturers are now selling 25 percent of new cars in the U.S. Steel would be limited to 30 percent while U.S. textile manufacturers may possible import up to 40 percent.

By making the foreign manufacturers compete among themselves for the U.S. market while U.S. manufacturers compete fairly and aggressively with each other, economic health would be restored to American business in domestic sales. Also, American businesses would regain financial strength for the modernization needed if America is to be at all competitive in the world market. As U.S. manufacturers become financially health again, they will not be so anxious to sell out all or a portion of their businesses to foreigners.

Today the U.S.is witnessing the selling of financially weakened U.S. businesses to financially strong foreigners. To buy these businesses, foreigners must obtain U.S. dollars on the International Monetary Exchange market, creating "the strong U.S. dollar." This strong U.S. dollar tends to cause an even greater rise in imports which further weakens U.S. manufacturers. Then, as more manufacturers consider selling out to foreigners, the foreigners want even more U.S dollars in order to buy these businesses. The cycle goes on and on like economic perpetual motion except for the fact that there is an end to the "game" when there are no more American owned U.S. businesses for the foreigners to buy.

The game of international economic competition is defeating American business right in our home market. It is time for America to change the rules to allow fair competition. International competitors have talked America into letting them bring their pro teams into our high school league. It is time Americans begin to stand up for U.S. manufacturers through support of a realistic and rational foreign trade policy—it is certain our foreign competitors will not! They are enjoying the winning too much!

Figure 1

View of Present U.S. Consumer Market Showing Each Arena of Competition

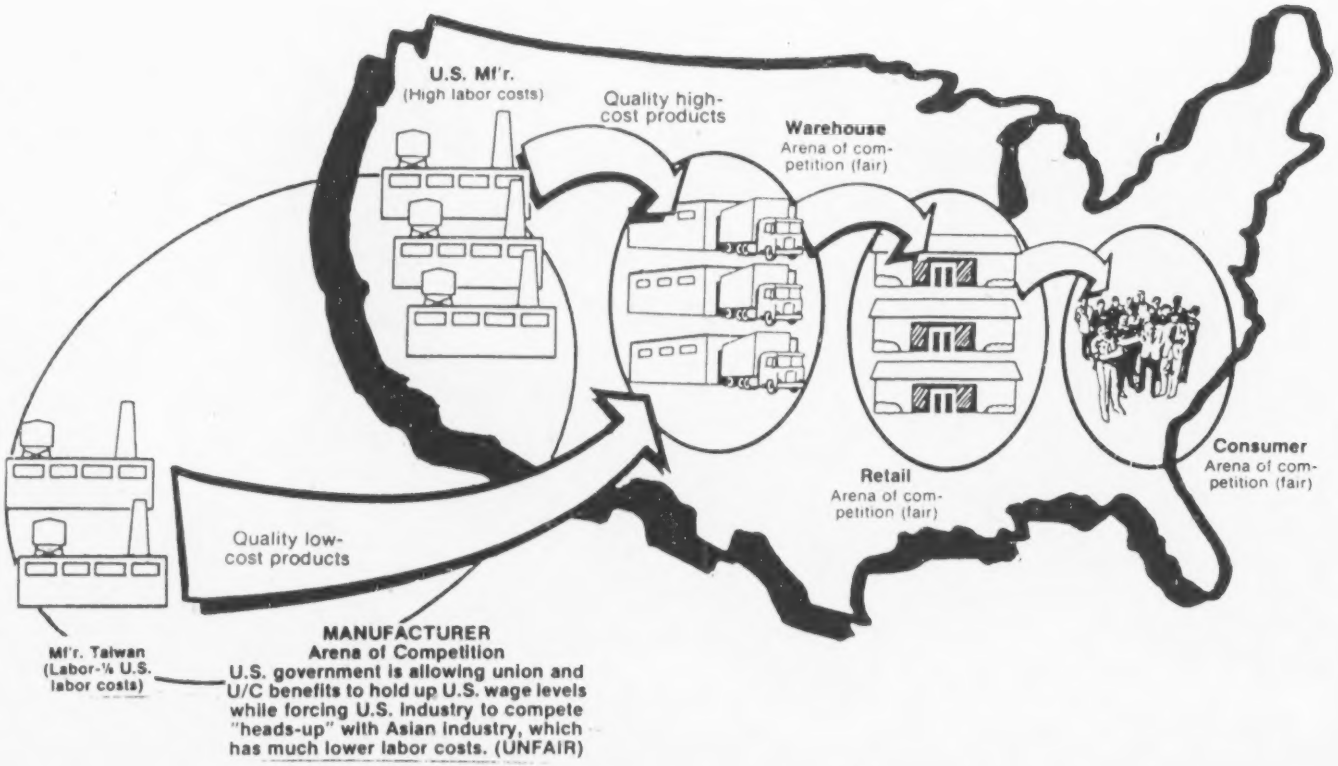
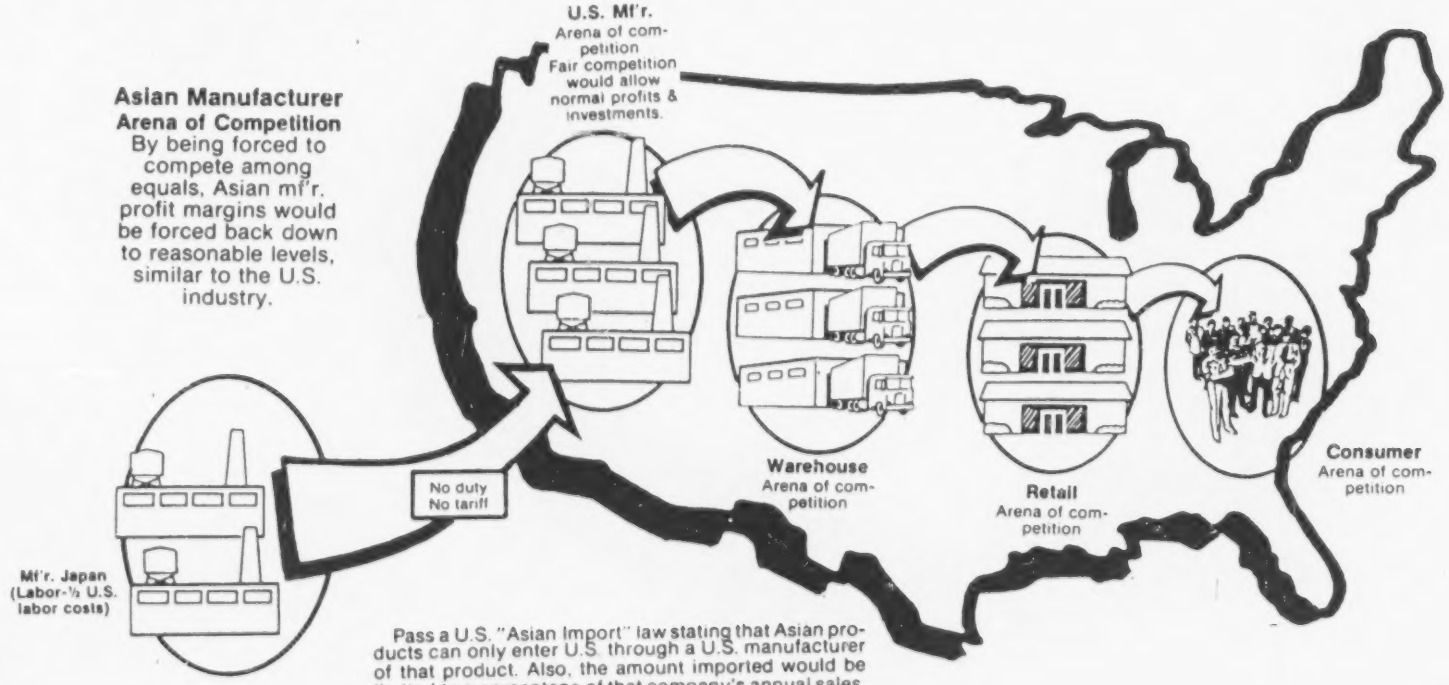


Figure 2
Proposed Solution to Give U.S. Industry a Fighting Chance in the U.S. and World Market



Pass a U.S. "Asian Import" law stating that Asian products can only enter U.S. through a U.S. manufacturer of that product. Also, the amount imported would be limited to a percentage of that company's annual sales. The import percentage would be set by the federal govt. based on present U.S. market share "owned" by Asian competitors.

EXAMPLE: Chrysler imports Mitsubishi cars that U.S. consumers can buy at no price penalty compared to similar Toyotas & Datsuns. If Chrysler wanted Japanese steel or fasteners, for instance, they could not import these items because they don't manufacture them. Chrysler, instead, would have to go to U.S. manufacturers of these products who could import these items.

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Congress of the United States
House of Representatives
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COMMITTEE ON
WAYS AND MEANS

SUBCOMMITTEE ON TRADE

COMMITTEE ON THE BUDGET

SELECT COMMITTEE ON AGING

September 25, 1986

Honorable Sam Gibbons
Chairman
Subcommittee on Trade
1136 Longworth HOB
U.S. House of Representatives
Washington, DC 20515

Dear Mr. Chairman:

I would like to request that the attached letter from the International Intellectual Property Alliance to Honorable Clayton Yeutter, United States Trade Representative, concerning the recently completed GATT ministerial meetings at Punta del Este be included in the record of the Subcommittee on Trade's September 22nd hearings.

I believe that the U.S. delegation to the Punta del Este talks achieved a major victory for the cause of intellectual property protection, a cause the Subcommittee has strongly championed.

Thank you for your cooperation in this matter.

Sincerely,

THOMAS J. DOWNEY
Member of Congress

Attachment

TJD/jo

International Intellectual Property Alliance

September 24, 1986

The Honorable Clayton Yeutter
United States Trade Representative
600 17th Street, N.W.
Washington, D.C. 20506

Dear Mr. Ambassador:

The members of the International Intellectual Property Alliance on behalf of the principal U.S. copyright industries -- books, computer software, motion pictures and musical recordings -- extend congratulations on your historic accomplishments in Punta del Este.

Less than two weeks ago, Alliance members expressed their best wishes for the successful initiation of a new round of multilateral trade negotiations which would include the adequate and effective protection of intellectual property as a major international trade objective. You and your colleagues have achieved this goal without reservation, bringing the U.S. copyright community a trade victory of substantial and lasting importance.

In our September 10 letter, we urged you to be mindful of those forces which might wish to use the GATT framework you have established for trade in intellectual property, particularly copyright, as a vehicle for weakening, rather than strengthening, the current levels of protection provided in the existing international copyright conventions. Fortunately, the language agreed upon offers little comfort to those forces and we are confident that during the negotiations to follow, you will continue to oppose vigorously any such efforts.

2005 MASSACHUSETTS AVENUE, N.W., WASHINGTON, D.C. 20036
(202) 232-3335

The members of the Alliance are committed to maintaining an active role in the events which will follow this precedential agreement. We look forward to continuing the close working relationship with your office which we trust has contributed to the successful implementation of the Administration's trade policy.

Sincerely,

THE INTERNATIONAL INTELLECTUAL
PROPERTY ALLIANCE

Ms. Luanne James
ADAPSO: The Computer
Software and Services
Industry Association

Mr. Vico Henriques
Computer and Business Equipment
Manufacturers Association

Mr. Jonas Rosenfield
American Film Marketing
Association

Mr. Jack Valenti
Motion Picture Association
of America

Ambassador Nicholas A. Veliotes
Association of American
Publishers

Mr. Edward P. Murphy
National Music Publishers'
Association

Mr. Stanley M. Gortikov
Recording Industry Association
of America